



A Dramatic Place

Houston's Alley Theatre began in a small dance studio at the end of an alley in 1947, evolving since then into one of the nation's most innovative professional resident theater companies. In 1996 the theater received a special Tony Award for outstanding and sustained achievement in professional theater. Located in Houston's Theater District, the Alley remains committed to making theatre available to the broadest possible audience.

Photo courtesy of: The Alley Theatre

THIS PAGE IS LEFT BLANK INTENTIONALLY

CITY OF HOUSTON, TEXAS
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2002

Note 1:	Summary of Significant Accounting Policies	42
Note 2:	Reconciliation of Government –wide and fund financial statements	52
Note 3:	Deposits and Investments.....	55
Note 4:	Allowance for Doubtful Accounts	57
Note 5:	Property Tax.....	57
Note 6:	Capital Assets.....	58
Note 7:	Short - Term Debt Tax Anticipation Notes	59
Note 8:	Long – Term Liabilities	60
Note 9:	Leases.....	71
Note 10:	Pension Plans	71
Note 11:	Other Employee Benefits	72
Note 12:	Interfund Transactions	74
Note 13:	Commitments and Contingencies.....	76
Note 14:	Restricted Net Assets and Reserved Fund Balance	77
Note 15:	Related Organization Transactions	77
Note 16:	Conduit Debt Obligations	78
Note 17:	Major Discretely Presented Component Units	78
Note 18:	Subsequent Events	86

CITY OF HOUSTON, TEXAS
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2002

Note 1: Summary of Significant Accounting Policies

The City of Houston, Texas ("City") was incorporated under the laws of the Republic of Texas in 1837 and again under the laws of the State of Texas in 1905. The City operates under a Home Rule Charter with a Mayor-Council form of government and provides the following services as authorized or required by its charter: public safety (police and fire), highways and streets, sanitation, water, airports, health services, culture-recreation, storm drainage, solid waste disposal, planning and inspection, civil defense, public improvements, and general administrative services, including pension and other benefits for its employees.

The financial statements presented in this report conform to the reporting requirements of the Governmental Accounting Standards Board ("GASB") which establishes combined statements as the required reporting level for governmental entities that present financial statements in accordance with generally accepted accounting principles.

The significant accounting policies of the City are as follows:

A. Principles Used in Determining the Reporting Entity for Financial Reporting Purposes

The accompanying financial statements include financial statements for related organizations in accordance with GASB Statement No.14, *The Financial Reporting Entity*. Organizations are included if they are financially accountable to the City, or the nature and significance of their relationship with the City are such that exclusion would cause the financial statements to be misleading or incomplete. Inclusion is determined on the basis of the City's ability to exercise significant influence. Significant influence or accountability is based primarily on its operational or financial relationship with the City (as distinct from legal relationship).

The City is financially accountable if it appoints a voting majority of an organization's governing body and is able to impose its will on that organization, or there is a potential for the organization to provide specific financial benefits to or impose specific financial burdens on the City. Blended component units, although legally separate entities are, in substance, part of the City's operations. Blended component units provide services exclusively or almost exclusively for the City. Both governmental and business-type discretely presented component units are reported in separate columns in the government-wide financial statements to emphasize their legal separateness from the City.

B. Basis of Presentation - Financial Reporting Entity

1. Component Units

Most component units of the City issue separately audited financial statements. Component units are reported in the City's Comprehensive Annual Financial Report ("CAFR") as shown in the following tables. Additional information is available from the addresses shown.

Following are the City's blended component units:

Blended Component Units Reported with the Primary Government	Brief Description of Activities, Relationship to the City and Key Inclusion Criteria
<p><i>Houston Firefighters' Relief & Retirement Fund</i> 4225 Interwood North Parkway Houston, TX 77032</p>	<p>Responsible for administration, management, and operation of the pension system solely for Houston City firefighters. One member of the Board is either the Mayor or an appointed representative, five members are elected by active firefighters, one member is elected by retired firefighters, two members are citizen representatives, and one member is the City Treasurer.</p> <p>Reporting Fund: Houston Firefighters' Relief and Retirement Pension Trust Fund.</p>
<p><i>Houston Municipal Employee's Pension System</i> 1111 Bagby, Suite 2450 Houston, TX 77002</p>	<p>Responsible for administration, management, and operation of the pension system solely for municipal (non-classified) employees of the City. Four members of the Board are appointed by the Mayor or City Council, six are elected by active employees or retirees, and one is the City Treasurer.</p> <p>Reporting Fund: Houston Municipal Employee's Pension Trust Fund.</p>

CITY OF HOUSTON, TEXAS
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2002

Blended Component Units Reported with the Primary Government	Brief Description of Activities, Relationship to the City and Key Inclusion Criteria
---	---

Houston Police Officer's Pension System
602 Sawyer, Suite 300
Houston, TX 77007

Responsible for administration, management, and operation of the pension system solely for active and retired police officers of the City. One member of the Board is appointed by the administrative head of the City, one is the City Treasurer, three are elected by employees, and two are appointed by elected Board members.

Reporting Fund: Police Officer's Pension Trust Fund.

Houston Area Water Corporation
611 Walker, Suite 2100
Houston, TX 77002

The Corporation is organized for the purpose of providing treated, potable water to the City of Houston for sale to customers located wholly or partially in Area Three of the Harris-Galveston Coastal Subsidence District and aiding and assisting the City of Houston in performing its obligations with respect to a regional groundwater reduction plan by, among other things, constructing, improving, equipping, repairing, operating and maintaining water treatment and distribution facilities and purchasing and selling water in connection therewith.

Reporting Fund: Business Type Non-Major

Following are the City's discretely presented business type component units:

Discretely Reported Component Units	Brief Description of Activities, Relationship to City, and Key Inclusion Criteria
--	--

Houston Convention Center Hotel Corporation ("HCCHC")
c/o George R. Brown
Avenida De Las Americas
Houston, TX 77010

Local government corporation created by the City in accordance with the Texas Transportation Corporation Act and Chapter 394 of the Texas Local Government Code authorized to construct, improve, enlarge, equip, repair, operate and maintain a hotel in downtown Houston within one thousand feet of the George R. Brown Convention Center. Board members are appointed by the Mayor and confirmed by City Council.

Houston Housing Finance Corporation ("HHFC")
9545 Katy Freeway, Suite 105.
Houston, TX 77024

Non-profit corporation incorporated by the City in accordance with the Texas Housing Finance Corporation Act to finance residential mortgage loans to low or moderate income persons through the sale of revenue bonds collateralized by the mortgage loans. The Board is nominated by the Mayor and confirmed by City Council. The City has financial accountability because it appoints a voting majority of the Board and the City can impose its will.

Following are the City's discretely presented governmental fund component units:

Discretely Reported Component Units	Brief Description of Activities, Relationship to City, and Key Inclusion Criteria
--	--

City Park Redevelopment Authority
P.O. Box 22167
Houston, Texas 77227

Special district organized under state statute to redevelop a neighborhood northwest of Downtown Houston. The City has financial accountability because the voting majority of the board members are nominated by the City Council and the operations provide financial benefit to the City.

Cultural Arts Council of Houston ("CACH")/Harris County
3201 Allen Parkway, Suite 250
Houston, TX 77019

Non-profit organization that is the officially designated arts agency of the City. The City does not appoint a voting majority, but is financially accountable because CACH is fiscally dependent on the revenues provided from a portion of hotel occupancy tax, which is levied by the City.

CITY OF HOUSTON, TEXAS
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2002

Discretely Reported Component Units	Brief Description of Activities, Relationship to City, and Key Inclusion Criteria
<i>East Downtown Redevelopment Authority P.O. Box 22167 Houston, Texas 77227</i>	Special district organized under state statute to redevelop a blighted neighborhood east of Downtown Houston. The City has financial accountability because the voting majority of the board members are nominated by City Council and the operations provide financial benefits to the City.
<i>Greater Greenspoint Redevelopment Authority C/o Hawes Hill & Assoc. Consultants P.O. Box 22167 Houston, Texas 77227-2167</i>	Special district organized under state statute to redevelop a blighted neighborhood in North Houston. The City has financial accountability because the voting majority of the board members are nominated by City Council and the operations provide financial benefits to the City.
<i>Gulfgate Redevelopment Authority c/o Knudson & Associates 8588 Katy Freeway, Suite 441 Houston, Texas 77024</i>	Special district organized under state statute to redevelop a blighted neighborhood southeast of Downtown Houston. The City has financial accountability because the voting majority of the board members are nominated by City Council and the operations provide financial benefits to the City.
<i>HALAN - Houston Area Library Automated Network Board Houston Central Library 500 McKinney Houston, TX 77002</i>	Provides review and guidance to the operation, funding and development of the Houston Area Library Automated Network, which provides library services to Houston and surrounding communities. Three members are appointed by City Council, two by the County, and one elected by the smaller libraries. The City does not appoint a voting majority, but is financially accountable for this organization because HALAN is fiscally dependent for all revenues and the City can impose its will.
<i>Houston Library Board Houston Central Library 500 McKinney Houston, TX 77002</i>	Solicits and manages funds raised privately for library improvements. Advises the Mayor and City Council on additions and improvements to the library system that provide a direct benefit to the City. Board members are nominated by the Mayor and confirmed by City Council.
<i>Houston Parks Board 2001 Kirby Dr., Suite 814 Houston, Texas 77019</i>	Solicits and manages funds raised privately for park acquisitions and advises the Mayor and City Council on park acquisitions and improvements, which provide a direct benefit to the City. Board members are nominated by the Mayor and confirmed by City Council.
<i>Lamar Terrace Public Improvement District City of Houston Box 1562 Houston, Texas 77251</i>	Special district organized under state statute to redevelop a blighted neighborhood in Southwest Houston. The City has financial accountability because the voting majority of the board members are nominated by City Council and the operations provide financial benefits to the City.
<i>Main Street Market Square Redevelopment Authority 1111 Bagby, Suite 2500 Houston, Texas 77002</i>	Special district organized under state statute to redevelop a blighted neighborhood in Downtown Houston. The City has financial accountability because the voting majority of the board members are nominated by City Council and the operations provide financial benefits to the City.
<i>Memorial-Heights Redevelopment Authority 12 Greenway Plaza, Suite 1500 Houston, Texas 77046-1287</i>	Special district organized under state statute to redevelop a blighted neighborhood close to Downtown Houston. The City has financial accountability because the voting majority of the board members are nominated by City Council and the operations provide financial benefits to the City.
<i>Midtown Redevelopment Authority 3401 Louisiana, Suite 355 Beinville Building Houston, Texas 77002</i>	Special district organized under state statute to redevelop a blighted neighborhood south of Downtown Houston. The City has financial accountability because the voting majority of the board members are nominated by City Council and the operations provide financial benefits to the City.

CITY OF HOUSTON, TEXAS
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2002

<u>Discretely Reported Component Units</u>	<u>Brief Description of Activities, Relationship to City, and Key Inclusion Criteria</u>
<i>OST/Alameda Corridors Redevelopment Authority</i> 2413 Blodgett Houston, Texas 77004	Special district organized under state statute to redevelop a blighted neighborhood south of Downtown Houston. The City has financial accountability because the voting majority of the board members are nominated by City Council and the operations provide financial benefits to the City.
<i>Saint George Place Redevelopment Authority</i> City of Houston Box 1562 Houston, Texas 77251	Special district organized under state statute to redevelop blighted areas in Houston. The City has financial accountability because the voting majority of the board members are nominated by City Council, the operations provide financial benefits to the City, the City has investment authority for the Zone's assets and the books and records are maintained by the City.
<i>South Post Oak Redevelopment Authority</i> 8588 Katy Frwy Houston, Texas 77024	Special district organized under state statute to redevelop a blighted neighborhood south/southwest of Downtown Houston. The City has financial accountability because the voting majority of the board members are nominated by City Council, the operations provide financial benefits to the City, the City has investment authority for the Zone's assets and the books and records are maintained by the City.
<i>Southwest Houston Redevelopment Authority</i> 7322 Southwest Freeway, Suite 1470 Houston, Texas 7774	Special district organized under state statute to redevelop a blighted neighborhood west of Downtown Houston. The City has financial accountability because the voting majority of the board members are nominated by City Council and the operations provide financial benefits to the City.
<i>Uptown Development Authority</i> 900 Bagby, City Hall Annex Houston, Texas 77002	Special district organized under state statute to redevelop a neighborhood west of Downtown Houston. The City has financial accountability because the voting majority of the board members are nominated by City Council and the operations provide financial benefits to the City.

2. Related Organizations

The following entities are related organizations to which the City appoints board members but for which the City has no significant financial accountability. Some of these organizations are Access Houston Cable Corporation, Coastal Water Authority, Employees Deferred Compensation Plan, Harris County-Houston Sports Authority, Metropolitan Transit Authority of Harris County, Houston Clean City Commission, Miller Theater Advisory Council and the Small Business Development Corporation. All transactions with these related organizations are conducted in the ordinary course of business. Further financial information is available from the respective organizations.

C. Basis of Presentation – Government-wide and fund financial statements

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support. Likewise, the *primary government* is reported separately from certain legally separate *component units* for which the primary government is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

The accounts of the City are organized on the basis of funds, each of which is accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund balance/retained earnings, revenues, and expenditures/expenses. Government resources are allocated to and accounted for in individual funds for the purpose of carrying on specific activities in accordance with special regulations, restrictions, or limitations. The type and purpose of funds include:

CITY OF HOUSTON, TEXAS
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2002

Fund Accounting

1. The City reports the following major governmental funds:

- (a) **General Fund** - is the principal operating fund of the City and is used to account for all financial resources except those required to be accounted for in another fund.
- (b) **Debt Service Fund** - is used to account for the accumulation of resources for, and the payment of principal, interest, and related costs of tax supported debt.
- (c) **Capital Projects Fund** - is used to account for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by proprietary funds and trust funds). Such resources are derived principally from proceeds of public improvement bonds and from special assessments.
- (d) **Grants Fund** - The Grants Fund is used to account for grant resources received from various local, state and national agencies and organizations. The use of these resources is restricted to a particular function of the city by the grantor.

2. The City reports the following major enterprise funds:

- (a) **Airport System Fund** - is used to account for the operations of the City's Airport System. The system is comprised of George Bush Intercontinental Airport, William P. Hobby Airport, Ellington Field, and the Central Business districts Heliport.
- (b) **Convention and Entertainment Facilities Fund** - is used to account for the operation of the City's six major entertainment centers and City-owned parking garages. These centers include the following: Jesse H. Jones Hall; Bayou Place; Gus S. Wortham Center; George R. Brown Convention Center and the Tranquillity Park and Theater District parking garages.
- (c) **Water and Sewer System Fund** - are used to account for the production and transmission of water and the treatment of wastewater for City residents and businesses as well as for other governmental entities located in the Houston area.

3. The City reports the following fund types:

- (a) **Nonmajor Special Revenue Funds** - are used to account for the proceeds of specific revenue sources (other than major capital projects) that are legally restricted to expenditures for specific purposes.
- (b) **Internal Service Funds** - are used to account for the financing of goods or services provided by one department to other departments of the City on a cost-reimbursement basis.
- (c) **Fiduciary Fund Types**

Trust and Agency Funds are used to account for assets held by the City in a trustee capacity or as an agent for individuals, private organizations, other governmental units and other funds. These include the following:

- (1) **Pension Trust Funds** - are accounted for in essentially the same manner as proprietary funds.
- (2) **Agency Funds** - are custodial in nature and do not involve measurement of results of operations.

D. Measurement Focus and Basis of Accounting

The government-wide financial statements display information about the City of Houston as a whole. Government-wide statements exclude both fiduciary funds and fiduciary component units. The statement of net assets and the statement of activities are prepared using the economic resources measurement focus and the accrual basis of accounting. Revenues, expenses, gains, losses, assets, and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place, regardless of the timing of related cash flows. Revenues, expenses, gains, losses, assets and liabilities resulting from non-exchange transactions are recognized in accordance with Statement of Government Accounting Standards 33. Program revenues include (1) amounts received from those who purchase, use, or directly benefit from a program, (2) amounts received from parties outside the City of Houston's citizenry that are restricted to one or more specific programs and (3) earnings on investments that are legally restricted for a specific program. Program revenue is divided into three categories: (1) charges for services, (2) operating grants and contributions and (3) capital grants and contributions.

All governmental funds are accounted for using the current financial resources measurement focus. This means that only current assets and current liabilities are generally included on their balance sheets. Their reported fund balances (net current assets) are considered a measure of "available spendable resources." Governmental fund operating statements present increases (revenues and other financing

CITY OF HOUSTON, TEXAS
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2002

sources) and decreases (expenditures and other financing uses) in net current assets. Accordingly, they are said to present a summary of sources and uses of "available spendable resources" during a period.

Non-current portions of certain long-term receivables, primarily property taxes and special assessments, are reported on the balance sheets of governmental funds in spite of their spending measurement focus. Special reporting treatments are used to indicate that they should not be considered "available spendable resources," since they do not represent net current assets. Recognition of governmental fund type revenues represented by noncurrent receivables is deferred until they become current receivables.

Because of their spending measurement focus, expenditure recognition for governmental fund types is limited to exclude amounts represented by non-current liabilities. Since they do not affect net current assets, such long-term amounts are not recognized as governmental fund type expenditures or fund liabilities.

All proprietary funds and pension trust funds are accounted for on a cost of services or "economic resources" measurement focus. This means that all assets and all liabilities (whether current or noncurrent) associated with their activity are included on their balance sheets. In accordance with GASB Statement No. 20, the City has elected to follow all Financial Accounting Standards Board (FASB) pronouncements issued prior to November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements. The City has elected not to follow FASB pronouncements issued subsequent to that date. All proprietary funds define operating revenues consistent with the precepts of Statement of Government Accounting Standards 9 paragraphs 16 – 19 and 31: cash receipts from customers, cash receipts from quasi-external operating transactions with other funds and other operating cash receipts. All other revenue recognized is non-operating.

Basis of accounting refers to when revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements, regardless of the measurement focus applied. All governmental funds and agency funds use the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recorded when susceptible to accrual; i.e., both measurable and available. Available means collectible within the current period or soon enough thereafter to pay current liabilities. The City considers receivables collected within sixty days after year-end to be available and recognizes them as revenues of the current period. Expenditures are generally recognized under the modified accrual basis of accounting in the accounting period in which the fund liability is incurred, if measurable. Claims, judgments and compensated absences are recognized when matured. The following types of revenues are susceptible to accrual under the modified accrual basis of accounting: delinquent property taxes (including penalty and interest); services billed to other funds; sales tax; mixed beverage tax; franchise fees; fines and forfeits; and investment earnings. Intergovernmental revenue from reimbursable grants and capital projects is recognized when the related expenditure is incurred.

All proprietary and pension trust funds use the full accrual basis of accounting. Their revenues are recognized when they are earned, and their expenses and related liabilities, including claims, judgments, and compensated absences, are recognized when they are incurred.

When restricted and unrestricted resources are available to cover expenses, unrestricted resources are first applied. Administrative overhead charges are included in direct program expenses.

E. Changes in Accounting Principles

In fiscal year 2002, the City adopted three new statements of financial accounting standards issued by the Governmental Accounting Standards Board (GASB).

- Statement No. 34 Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments
- Statement No. 37 Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments: Omnibus
- Statement No. 38 Certain Financial Statement Disclosures

Statement No. 34 (as amended by Statement No. 37) represents a very significant change in the financial reporting model used by state and local governments.

Statement No. 34 requires government-wide financial statements to be prepared using the accrual basis of accounting and the economic resources measurement focus. Government-wide financial statements do not provide information by fund or account group, but distinguish between the City’s governmental activities and activities of its discretely presented component units on the statement of net assets and statement of activities. Significantly, the City’s statement of net assets will include both noncurrent assets and noncurrent liabilities of the City, which were previously recorded in the General Fixed Assets Account Group and the General Long-term Debt Account Group. In addition to the fixed assets previously recorded in the General Fixed Assets Account Group, the City retroactively capitalized infrastructure assets that were previously acquired. In addition, the government-wide statement of activities reflects depreciation expenses on the City’s fixed assets, including infrastructure.

In addition to the government-wide financial statements, the City has prepared fund financial statements, which continue to use the modified accrual basis of accounting and the current financial resources measurement focus. Accordingly, the accounting and financial

CITY OF HOUSTON, TEXAS
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2002

reporting for the City's General Fund, Capital Projects Funds, Special Revenue Funds, and Debt Service Fund is similar to that previously presented in the City's financial statements, although the format of financial statements has been modified by Statement No. 34.

Statement No. 34 also requires as supplementary information Management's Discussion and Analysis which includes an analytical overview of the City's financial activities. In addition, a budgetary comparison statement is presented that compares the adopted and modified General Fund budget with actual results.

Statement No. 38 requires certain disclosures to be made in the notes to the financial statements concurrent with the implementation of Statement No. 34. While this Statement did not affect amounts reported in the financial statements of the City, certain note disclosures have been added and or amended including descriptions of activities of major funds, short-term obligations, interest rates, and interfund balances and transactions.

F. Budgetary Data

1. General Budget Policies

Annual operating budgets are adopted for the General Fund, the Debt Service Fund, the Special Revenue Funds (except for the Grants Revenue Fund, Disaster Recovery, Health Special Fund and the Housing Special Fund) and the Proprietary Funds. The budgets are adopted on a basis consistent with generally accepted accounting principles for all governmental funds. Budgets for proprietary funds are prepared on the accrual basis, but focus on expenses relating to maintenance and operations, and equipment purchases and, accordingly, exclude depreciation and other allocations related to income determination.

The following provides a reconciliation of the City's budgeting policy with respect to Special Revenue Funds for actual fiscal year 2002 results (in thousands):

	<u>Revenues</u>	<u>Expenditures</u>	<u>Other Sources (Uses)</u>
Budgeted Special Revenue Funds	\$ 51,514	\$ 69,543	\$ 23,200
Non-budgeted Disaster Recovery Fund	11,637	3,840	6,451
Non-budgeted Grants Revenue Fund	124,581	124,349	-
Non-budgeted Health and Housing	1,656	1,002	-
Total Special Revenue Funds - Actual	<u>\$ 189,388</u>	<u>\$ 198,734</u>	<u>\$ 29,651</u>

During January of each year, the Mayor, with City Council input, establishes budget guidelines. All departments of the City submit requests for appropriations to the Mayor and the City's Department of Finance and Administration so that a budget may be prepared. Generally, during June, the City Controller certifies that funds are available for a continuing appropriation and the budget is proposed to City Council. City Council holds public hearings and a final budget is normally adopted by June 30. A final appropriation ordinance is adopted during a fiscal year and may include budget revisions or amendments.

The legal level of budgetary control is the departmental level within each fund, even though the budget is prepared by fund, department, and expenditure category. The Mayor is authorized to transfer unlimited budgeted amounts within departments and amounts between departments, provided such transfers do not exceed 5% of an expenditure category. Expenditure categories are personnel services, other current expenditures and capital outlay. Appropriations related to funds with annual budgets lapse at year-end except for Capital Outlay appropriations which cover multiple years.

On May 1, 2002, City Council approved the FY 02 general appropriation ordinance in the amount of \$1.4 billion for the General Fund. City Council approved budget revisions increasing General Fund expenditures and other uses by \$4.5 million. The increase in the FY 2002 Appropriation was primarily due to increases in firefighter overtime to place four firefighters on a truck, overtime for airport police as a result of heightened security at the airports following the events of September 11th, and expenditures related to the limited purpose annexation of the Baybrook MUD. The increase was offset by a reduction in electricity due to electricity deregulation, staffing decrease due to position control, and spending controls imposed to limit expenditures in the supplies and services accounts. Miscellaneous support services exceeds the amounts budgeted due to revolving fund expenditures being absorbed by general government rather than at department level as originally budgeted. Unanticipated year-end overtime combined with increases in health benefit cost caused expenditures of the Fire Department to exceed budget by \$2.9 million. Total expenditures were \$4.3 million more than budgeted.

2. Encumbrances

Encumbrance accounting is employed in the governmental and proprietary funds. Under encumbrance accounting, purchase orders, contracts, and other commitments for the expenditure of funds are recorded in order to reserve a portion of the applicable

CITY OF HOUSTON, TEXAS
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2002

appropriation. Outstanding encumbrances are deleted and the related appropriations lapse at year-end. Open encumbrances are then reestablished in the succeeding fiscal year against that fiscal year's appropriations. Encumbrances do not constitute expenditures or liabilities.

G. Assets, Liabilities, and Fund Equity

1. Deposits and Investments

The City's investment policy requires all deposits to be fully collateralized with depository insurance; obligations of the United States of America or its agencies and instrumentalities (excluding those mortgage backed securities prohibited by the Public Funds Investment Act); or in any other manner and amount provided by law for the deposits of the City. At all times, such securities are to have a fair value of not less than 102% of the amount of the deposits collateralized thereby, adjusted by the amount of applicable depository insurance.

Substantially all cash, except for imprest accounts, is deposited with financial institutions in interest bearing accounts or is invested. The majority of the City's cash and investments are administered using a pooled concept, which combines the monies of various funds for investment purposes. Interest earnings of the pool are apportioned to each fund, unless otherwise required by bond covenants, based on the fund's relative share of the investment pool. Amounts on deposit in interest bearing accounts and other investments are displayed on the combined balance sheet as "Equity in pooled cash and investments" and in accordance with GASB statement No. 31, are carried at fair value. The blended and discretely presented component units separately invest their funds and report investments pursuant to their respective investment policies described in their separately audited financial statements at their fair values.

Investments authorized by the City's investment policy, which is guided by state laws and city ordinances generally include: obligations of the United States of America or its agencies and instrumentalities; fully-collateralized Certificates of Deposit from City Council-approved public depositories; direct obligations of the State of Texas or its agencies and instrumentalities; other obligations, the principal and interest of which are unconditionally guaranteed or insured by, or backed by the full faith and credit of, the State of Texas or the United States or their respective agencies and instrumentalities; obligations of states, agencies, counties, cities, and other political subdivisions; corporate commercial paper; fully collateralized repurchase agreements; and reverse repurchase agreements within specific terms. Investments are carried at fair value based on quoted market prices.

2. Inventories of Materials and Supplies

Inventories are valued at the average cost in the government-wide and proprietary fund statements. For governmental funds, inventory items are recorded as expenditures when used under the consumption method.

3. Capital Assets

a. Property, Plant, Equipment, Works of Art and Infrastructure

Asset valuation is based on historical costs or estimated historical costs, if original costs are not available.

General fixed assets are not capitalized in the funds used to acquire or construct them. Instead, capital acquisition and construction are reflected as expenditures in governmental funds.

Capital Assets, which include land, building and improvements, improvements other than buildings, machinery and equipment, construction in progress and infrastructure (e.g. storm drainage, streets and bridges), are reported in the applicable governmental and business-type activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial cost of more than \$5,000 (amount not rounded) and an estimated useful life in excess of four years. Such assets are recorded at historical cost or estimated historical if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as a part of the capitalized value of the assets constructed. Buildings and improvements, improvements other than buildings, machinery and equipment and infrastructure is depreciated using the straight-line method over the following estimated useful lives:

Assets	Useful Life
Buildings and improvements	Range from 15 to 45 years
Improvements other than buildings	Range from 15 to 30 years
Machinery	Range from 4 to 30 years
Equipment	Range from 4 to 15 years
Storm drainage	50 years
Streets	Range from 6 to 50 years
Bridges	Range from 20 to 50 years

CITY OF HOUSTON, TEXAS
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2002

b. Enterprise Funds

Property, plant, and equipment owned by the Enterprise Funds are stated at cost or estimated historical cost if original cost is not available. Construction costs (excluding land and equipment) are added to construction work-in-progress until the assets are placed in service and are depreciated following completion. Depreciation on equipment begins in the year of acquisition. Land and equipment costs are added to the fixed asset base in the year of acquisition. Interest costs on funds borrowed to finance the construction of property, plant and equipment of the enterprise funds are capitalized when the costs materially exceed interest earnings on related revenue bond proceeds. For fiscal year 2002, the capitalized interest cost for the Airport System Facilities was \$47.3 million.

Depreciation is computed using the straight-line method on the composite asset base over the estimated useful lives as follows:

Assets	Years
Airport System Facilities	4-45
Convention & Entertainment Facilities	4-45
Water and Sewer System Facilities	5-50

Water rights and conveyance system rights of the Water and Sewer System Fund are amortized over the life of the related contracts. These rights are reported as other assets.

4. Bond Discounts and Issuance Costs

Bond discounts and issuance costs in Enterprise Funds are amortized over the term of the bonds using the effective interest method. In addition, gains or losses on Enterprise Fund refundings are amortized over the term of the lesser of the new bonds or the refunded bonds using the effective interest method.

5. Fund Balance

- a. **Reserve** - Indicates that portion of fund balance, which has been legally segregated (e.g., by bond ordinance) for specific purposes.
- b. **Designated Fund Balance** - Indicates that portion of fund balance for which the City has made tentative plans.
- c. **Undesignated Fund Balance** - Indicates that portion of fund balance, which is available for appropriation in future periods.

H. Transfers, Revenues, Expenditures and Expenses

1. Interfund Transactions

A description of the four basic types of interfund transactions and the related accounting policies are as follows:

- a. Loans are reported as receivables and payables as appropriate.
- b. Charges for services are reported as revenues for the performing fund and expenditures of the requesting fund.
- c. Transactions to reimburse a fund for expenditures made by it for the benefit of another fund are recorded as expenditures or expenses in the reimbursing fund and as a reduction of expenditures or expenses in the fund that is reimbursed.
- d. All other interfund transfers, such as legally authorized transfers from a fund receiving revenue to the fund through which the resources are to be expended, are transfers. Transfers are classified as other financing sources or uses (or transfers for proprietary funds) in the Statement of Revenues, Expenditures (or expenses) and Changes in Fund Balances (or net assets).

For reporting at the government-wide statements level, the City of Houston's eliminates direct interfund charges for services and the balances created within the same fund categories (i.e. governmental vs. business-type). This process ensures neither business-type nor governmental funds report direct internal revenue/expenditures. Interfund activity and balances resulting from transactions with the fiduciary funds are not eliminated. Instead the fiduciary interfund activity and balances are treated as transactions with an external party. Interfund activity with discretely presented component units are handled in the same manner as fiduciary interfund activity/ balances. However, the discretely presented balances are reported on a separate line of the Statement of Net Assets. The Internal Service Fund is essentially a warehouse for income, expenses, assets and liabilities of the City of Houston health benefits and long term disability programs.

CITY OF HOUSTON, TEXAS
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2002

2. Compensated Absences

Full-time employees of the City are eligible for vacation leave of 10 working days per year. After 5 years of full-time employment with the City, they receive an extra day of vacation and continue to earn an extra day per year for each additional year of service up to a maximum of 12 extra days. Employees may accumulate up to 90 days of vacation leave. Upon termination or retirement, employees are paid for unused vacation leave, up to 90 days inclusive of vacation paid during that calendar year, in the amount determined by taking the average rate during the employee's last sixty (60) days of employment. Part-time employees (those working less than 30 hours per week) are not eligible for vacation leave benefits.

Generally all full-time employees are covered under the compensatory sick leave plan and receive a bi-weekly leave time allowance of 2.5 hours per payroll period up to a maximum of 65 hours per year. Employees who use fewer than 65 hours during the benefit year will receive a match of additional hours equal to the number of hours accrued minus the number of hours used. Once an employee's balance has reached 1,040 hours, no additional match for unused hours is given. Upon termination, all unused sick leave time allowances in excess of 1,040 hours are payable to the employee at the employee's rate of pay at the time of termination. An employee who uses two days or less of sick leave in any benefit year receives up to three days of personal leave in the next year. Personal leave may be used in place of vacation leave, but will not accumulate and will not be paid out at termination.

The City also has adopted policies of compensatory time to comply with the Fair Labor Standards Act as amended in 1985. These policies provide limits to the accumulation of compensatory time and also provide that time not used will be paid in cash. Only classified employees and civilian employees in certain pay grades routinely earn compensatory time.

On a government-wide basis, vacation and compensatory time benefits are accrued as liabilities as the benefits are earned by employees to the extent that the City's obligation is attributable to employees' services already rendered, and it is probable that the City will compensate the employees for the benefits through paid time off or some other means, such as cash payments. On a fund financial statement basis, only matured liabilities are accrued.

Sick leave benefits are accrued as a liability as the benefits are earned by employees, but only to the extent that it is probable that the City will compensate the employees through cash payments conditioned on the employees' termination or retirement.

I. Statement of Cash Flows — Cash and Cash Equivalents

The City considers cash and cash equivalents to be unrestricted equity in pooled cash and investments which consist of cash on hand, demand deposits and all highly liquid investments which can be deposited or withdrawn without notice or penalty. Generally, restricted assets have maturities greater than three months.

J. Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

K. Internal Service Funds

The Internal Service Funds' purpose is to measure the full cost of providing health benefits and long term disability to city employee and dependants for the purpose of fully recovering that cost through fees or charges – employees' payroll deduction and departmental personnel budgets' expenditures. Any profit (loss) during a period is credited (charged) back to participating programs. All assets and liabilities are reported in the governmental activities column of the Statement of Net Assets.

CITY OF HOUSTON, TEXAS
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2002

Note 2. Reconciliation of Government-wide and Fund Financial Statements

A. Explanation of Certain Differences between the Governmental Fund Balance Sheet and the Statement of Net Assets

Long-term liabilities applicable to the City's governmental activities are not due and payable in the current period and accordingly are not reported as fund liabilities. Interest on long-term debt is not accrued in governmental funds, but rather is recognized as an expenditure when due. All liabilities - both current and long-term - are reported in the statement of net assets. Also, during the year the city refunded some of its existing debt. The amount borrowed is received in the governmental funds and increases fund balance. The amount that was sent to the paying agent (\$433,191,697) to be escrowed for payment of the old debt (\$424,540,000) as it comes due is paid out of governmental funds and reduces fund balance. The difference between those amounts was \$8,651,697 and will be amortized as an adjustment to interest expense in the statement of activities over the remaining life of the refunded bonds (12 years).

Balances at June 30, 2002, were (in thousands):

Unamortized deferred gain	\$	7,826
Unamortized issuance cost		3,336
Deferred revenue general fund		112,902
Deferred revenue grants fund		136,882
Deferred revenue nonmajor funds		1,145
Other long-term assets not available to pay current period expenditures	\$	262,091
Internal Service fund total assets	\$	16,348
Internal Service fund total liabilities		(15,146)
Cumulative asset resulting from undercharging of the enterprise funds		404
Total Internal Service funds' adjustment to the Statement of Net Asset	\$	1,606
Bonds and notes payable	\$	(1,939,444)
Plus premium on bonds		(18,146)
Arbitrage rebate payable		(674)
Accrued interest		(20,841)
Compensated absences		(353,304)
Claims and Judgments		(79,293)
Claims and judgments reported at fund level general fund		2,957
Claims and judgments reported at fund level internal service		12,396
Compensated absences reported at fund level general fund		6,319
Compensated absences reported at fund level internal service		94
Long-term liabilities not due and payable in the current period	\$	(2,389,936)

CITY OF HOUSTON, TEXAS
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2002

B. Explanation of Certain Differences between the Governmental Fund Statement of Revenues, Expenditures, and Changes in Fund Balances and the Statement of Activities

Bond proceeds are reported as financing sources in governmental funds and thus contribute to the change in fund balance. In the statement of net assets, however, issuing debt increases long-term liabilities and does not affect the statement of activities. Similarly, repayment of principal is an expenditure in the governmental funds, but reduces the liability in the statement of net assets (in thousands).

Debt issued:	
Refunded general obligation bonds	\$ 430,489
Premium on bonds	19,842
Commercial paper	160,000
Section 108 Loans	2,700
Capital appreciation bonds accretion	520
Capital appreciation bonds retirement	<u>(1,165)</u>
Total proceeds	<u>612,386</u>
Repayments:	
To paying agent:	
For bond principal	(424,540)
Additional amount - deferred amt.	<u>(8,652)</u>
Total paying agent	(433,192)
To bondholders	(110,060)
To section 108 note holders	<u>(785)</u>
Total repayments	<u>(544,037)</u>
Payment of issuance cost	(3,648)
Amortization of:	
Deferred gain	827
Premium	(1,697)
Issuance cost	312
Net adjustment	<u>\$ 64,143</u>

CITY OF HOUSTON, TEXAS
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2002

Under the modified accrual basis of accounting used in the governmental funds, expenditures are not recognized for transactions that are not normally paid with expendable available financial resources. In the statement of activities, however, which is presented on the accrual basis, expenses and liabilities are reported regardless of when financial resources are available. In addition, interest on long-term debt is not recognized under the modified accrual basis of accounting until due, rather than as it accrues. The adjustment is a combination of the following items (in thousands):

Property taxes earned but not available	\$ 37,636
Fines and forfeits earned but not available	7,456
Grants revenue earned but not available	20,463
Total revenue not reported at fund level	<u>\$ 65,555</u>

Property taxes for prior periods	\$ (33,787)
Ambulance fees for prior periods	(1,335)
Fines and forfeits for prior periods	(7,444)
Grants revenue for prior periods	(10,080)
Total revenue for prior period transactions	<u>\$ (52,646)</u>

Claims and judgments	\$ (1,567)
Interest on long-term debt (accrued)	(6,374)
Total expenses not reported at fund level	<u>\$ (7,941)</u>

Compensated absences	\$ 10,357
Arbitrage rebate	404
Total liquidation of previously accrued liabilities	<u>\$ 10,761</u>

CITY OF HOUSTON, TEXAS
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2002

Note 3: Deposits and Investments

A. Deposits

The City's deposits, including component units, are categorized to give an indication of the level of risk assumed by the City at year-end as follows:

- Category 1 - Insured or collateralized with securities held by the City or by its agent in the City's name.
- Category 2 - Collateralized with securities held by the pledging financial institution's trust department or agent in the City's name.
- Category 3 - Uncollateralized.

At June 30, 2002, the carrying amount of the City's deposits was \$8,837,000 and the bank balance was \$39,608,354. Of this amount, \$200,000 was covered by federal depository insurance and the balance was covered by collateral held by the City's agent in the City's name (category 1).

The carrying amount and the bank balance of the pension trust fund component unit deposits was \$12,388,000 and is covered by collateral held by a third party in the entity's name (category 1).

The carrying amount of the discretely presented component unit deposits was \$21,392,000 with a bank balance of \$6,735,507 covered by collateral held by the entity's agent in the entity's name (category 1).

B. Investments

The City's investments, including component units, are categorized to give an indication of the level of risk assumed by the City at year-end as follows:

- Category 1 includes investments that are insured or registered or for which the securities are held by the City's agent in the City's name.
- Category 2 includes uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent in the City's name.
- Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty, or by its trust department or agent, but not in the City's name.

Certain investments, such as commingled funds, mortgage loans, and real estate limited partnership, are not required to be categorized because they are not evidenced by securities that exist in physical or book entry form.

CITY OF HOUSTON, TEXAS
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2002

A summary of investments by risk category as of June 30, 2002 follows (in thousands):

Type of Investment	Category			Not Categorized	Total
	1	2	3		
Primary Government					
<i>City of Houston</i>					
U.S. government and agency securities	\$ 1,620,011	\$ -	\$ -	\$ -	\$ 1,620,011
State and local government issues	121,117	-	-	-	121,117
Commercial Paper	111,806	-	-	-	111,806
Money Market Mutual Funds	-	-	-	27,678	27,678
Flexible repurchase agreements	-	273,456	-	-	273,456
Certificate of Deposit	466	-	-	-	466
Total City	1,853,400	273,456	-	27,678.00	2,154,534
<i>Houston Area Water Corporation</i>					
U.S. government and agency securities	79,887	-	-	-	79,887
State and local government issues	6,440	-	-	-	6,440
Commercial Paper	3,630	-	-	-	3,630
Money Market Mutual Funds	-	-	-	1,941	1,941
Total Houston Area Water Corporation	89,957	-	-	1,941	91,898
Total Primary Government	\$ 1,943,357	\$ 273,456	\$ -	\$ 29,619	\$ 2,246,432
Pension Trust Fund component units					
U.S. government securities	\$ 275,703	\$ -	\$ -	\$ -	\$ 275,703
Corporate bonds	523,034	-	-	-	523,034
Other fixed income securities	-	-	537,437	-	537,437
Commingled equity funds	-	-	-	1,740,223	1,740,223
Common & preferred stocks	-	-	771,989	-	771,989
Real estate and partnerships	-	-	-	759,885	759,885
Short-term investment funds	41,749	-	-	204,733	246,482
Collateral on security lending	-	-	322,022	85,640	407,662
Total pension trust fund component units	\$ 840,486	\$ -	\$ 1,631,448	\$ 2,790,481	\$ 5,262,415
Discretely Presented Component Units					
U.S. government securities	\$ 34,308	\$ -	-	\$ -	\$ 34,308
Corporate bonds	694	-	-	-	694
Common stock	-	12,720	-	-	12,720
Land	-	-	-	3	3
Real Estate	-	-	-	6,151	6,151
External Investment Pool	-	-	-	1,800	1,800
Mortgage backed securities	-	-	-	305	305
Money market and mutual funds	-	-	-	6,877	6,877
Total discretely presented component units	\$ 35,002	\$ 12,720	-	\$ 15,136	\$ 62,858

CITY OF HOUSTON, TEXAS
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2002

Note 4: Allowance for Doubtful Accounts

The following were the allowances for doubtful accounts receivable by fund as of June 30, 2002 (in thousands):

Fund	Amount
General	
Uncollectible General Property Taxes	\$ 23,349
Ambulance Charges	231,518
Fines and forfeits	93,668
Others	2,590
Grant Revenue	1,707
Airport System	1,227
Convention and Entertainment Facilities	41
Water and Sewer System	79,037
	\$ 433,137

Note 5: Property Tax

The City's annual ad valorem property tax is required to be levied by October 1, or as soon thereafter as practicable, on the assessed value listed as of the prior January 1 for all real and certain personal property. Taxes are due on January 31 of the year following the year of the levy. A lien is placed on taxable property if the assessment remains unpaid as of June 30 of the year following the year of the levy. The tax rate established by the City Council for the 2001 tax year was \$0.655 per \$100 of assessed value with \$0.47601 for operations and \$0.17899 for debt service.

The City Charter limits the property tax rate to \$0.50 per \$100 of assessed valuation excluding taxes levied for "debt service," as that term is defined in Section 1 of Article III of the City Charter.

The Texas Property Tax Code ("Code"), with certain exceptions, exempts intangible personal property, household goods, and family-owned automobiles from taxation. In addition, the Code provides for countywide appraisal districts. Since January 1, 1983, the appraisal of property within the City has been the responsibility of the countywide appraisal district.

The appraisal district is required under the Code to appraise all taxable property within the appraisal district on the basis of 100% of its appraised value and is prohibited from applying any assessment ratios. The value of real property within the appraisal district must be reviewed every three years. However, the City may, at its own expense, require annual reviews of appraised values. The City may challenge appraised values established by the appraisal district through various appeals and, if necessary, take legal action.

CITY OF HOUSTON, TEXAS
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2002

Note 6: Capital Assets

A. Government activities of the Primary Government

	Balance June 30, 2001	Additions	Retirements	Transfers	Balance June 30, 2002
Primary Government					
Capital assets not being depreciated:					
Land	\$ 327,049	\$ 6,192	\$ (86)	\$ -	\$ 333,155
Construction Work in Progress	507,345	164,021	-	(395,967)	275,399
Total capital assets not being depreciated	<u>834,394</u>	<u>170,213</u>	<u>(86)</u>	<u>(395,967)</u>	<u>608,554</u>
Other capital assets:					
Buildings	282,863	4,359	(5,335)	11,610	293,497
Improvements and Equipment	530,229	175,612	(34,723)	-	671,118
Infrastructure	4,118,107	-	-	384,357	4,502,464
Total other capital assets	<u>4,931,199</u>	<u>179,971</u>	<u>(40,058)</u>	<u>395,967</u>	<u>5,467,079</u>
Less accumulated depreciation for:					
Buildings	(176,257)	(15,028)	-	-	(191,285)
Improvements and Equipment	(265,468)	(12,463)	-	-	(277,931)
Infrastructure	(1,508,346)	(108,998)	-	-	(1,617,344)
Total accumulated depreciation	<u>(1,950,071)</u>	<u>(136,489)</u>	<u>-</u>	<u>-</u>	<u>(2,086,560)</u>
Other capital assets, net	2,981,128	43,482	(40,058)	395,967	3,380,519
Primary Government capital assets, net	<u>\$ 3,815,522</u>	<u>\$ 213,695</u>	<u>\$ (40,144)</u>	<u>\$ -</u>	<u>\$ 3,989,073</u>

B. Business Type Activity

A summary of changes in business type capital assets for the year ended June 30, 2002 follows (in thousands):

	Balance June 30, 2001	Additions	Retirements	Transfers	Balance June 30, 2002
Airport System					
Capital assets not being depreciated:					
Land	\$ 120,182	\$ 9,281	\$ (54)	\$ -	\$ 129,409
Construction Work in Progress	402,405	268,801	(11,687)	-	659,519
Total capital assets not being depreciated	<u>522,587</u>	<u>278,082</u>	<u>(11,741)</u>	<u>-</u>	<u>788,928</u>
Other capital assets:					
Buildings, Improvements and Equipment	1,612,919	159,662	(1,645)	-	1,770,936
Total other capital assets	<u>1,612,919</u>	<u>159,662</u>	<u>(1,645)</u>	<u>-</u>	<u>1,770,936</u>
Less accumulated depreciation for:					
Buildings, Improvements and Equipment	(639,876)	(57,943)	-	-	(697,819)
Total accumulated depreciation	<u>(639,876)</u>	<u>(57,943)</u>	<u>-</u>	<u>-</u>	<u>(697,819)</u>
Other capital assets, net	973,043	101,719	(1,645)	-	1,073,117
Airport System capital assets, net	<u>1,495,630</u>	<u>379,801</u>	<u>(13,386)</u>	<u>-</u>	<u>1,862,045</u>
Convention and Entertainment Facilities					
Capital assets not being depreciated:					
Land	65,694	-	-	-	65,694
Construction Work in Progress	21,950	40,550	(153)	-	62,347
Total capital assets not being depreciated	<u>87,644</u>	<u>40,550</u>	<u>(153)</u>	<u>-</u>	<u>128,041</u>
Other capital assets:					
Buildings, Improvements and Equipment	272,588	153	-	-	272,741
Total other capital assets	<u>272,588</u>	<u>153</u>	<u>-</u>	<u>-</u>	<u>272,741</u>
Less accumulated depreciation for:					
Buildings, Improvements and Equipment	(87,556)	(5,756)	-	-	(93,312)
Total accumulated depreciation	<u>(87,556)</u>	<u>(5,756)</u>	<u>-</u>	<u>-</u>	<u>(93,312)</u>
Other capital assets, net	185,032	(5,603)	-	-	179,429
Convention and Entertainment Facilities capital assets, net	<u>272,676</u>	<u>34,947</u>	<u>(153)</u>	<u>-</u>	<u>307,470</u>

CITY OF HOUSTON, TEXAS
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2002

	Balance June 30, 2001	Additions	Retirements	Transfers	Balance June 30, 2002
Water and Sewer System					
Capital assets not being depreciated:					
Land	81,663	6,155	-	-	87,818
Construction Work in Progress	780,493	328,806	(244,296)	-	865,003
Total capital assets not being depreciated	<u>862,156</u>	<u>334,961</u>	<u>(244,296)</u>	<u>-</u>	<u>952,821</u>
Other capital assets:					
Buildings, Improvements and Equipment	190,607	12,897	(2,957)	-	200,547
Plants and Lines	5,592,510	236,430	(42,084)	-	5,786,856
Total other capital assets	<u>5,783,117</u>	<u>249,327</u>	<u>(45,041)</u>	<u>-</u>	<u>5,987,403</u>
Less accumulated depreciation for:					
Buildings, Improvements and Equipment	(94,140)	(8,915)	-	-	(103,055)
Plants and Lines	(2,660,605)	(146,859)	-	-	(2,807,464)
Total accumulated depreciation	<u>(2,754,745)</u>	<u>(155,774)</u>	<u>-</u>	<u>-</u>	<u>(2,910,519)</u>
Other capital assets, net	<u>3,028,372</u>	<u>93,553</u>	<u>(45,041)</u>	<u>-</u>	<u>3,076,884</u>
Water and Sewer System capital assets, net	<u>3,890,528</u>	<u>428,514</u>	<u>(289,337)</u>	<u>-</u>	<u>4,029,705</u>
Houston Area Water Corporation					
Capital assets not being depreciated:					
Construction Work in Progress	-	25,365	-	-	25,365
Total capital assets not being depreciated	<u>-</u>	<u>25,365</u>	<u>-</u>	<u>-</u>	<u>25,365</u>
Houston Area Water Corporation capital assets, net	<u>-</u>	<u>25,365</u>	<u>-</u>	<u>-</u>	<u>25,365</u>
Business-type activities capital assets, net	<u>\$ 5,658,834</u>	<u>\$ 868,627</u>	<u>\$ (302,876)</u>	<u>\$ -</u>	<u>\$ 6,224,585</u>

C. Depreciation Expense

Depreciation expense was charged to functions / programs of the primary government as follows (in thousands):

Governmental activities	
General government	\$ 2,875
Public safety	7,226
Public works	5,562
Health	2,115
Parks and recreation	8,448
Library	1,265
Total depreciation expense - governmental activities	<u>\$ 27,491</u>
Business-type activities	
Airport System	\$ 59,471
Convention & Entertainment Facilities	4,217
Water & Sewer	155,774
Houston Area Water Corporation	11
Total depreciation expense - business-type activities	<u>\$ 219,473</u>

D. Pension Trust Funds

In February 1998, the Firefighters' Relief and Retirement Fund purchased land in the amount of \$541,194 for use in the construction of a new office building for its operations and its members. In April of 2001, the construction of the new building was completed. As of June 30, 2002, the building amount of \$9,070,087 is being depreciated over 30 years. The accumulated depreciation for the building as of June 30, 2002 amounted to \$382,730.

Note 7: Short-term Debt – Tax Anticipation Notes

The City issues tax revenue anticipation notes in advance of property tax collections, depositing the proceeds in its general fund. These notes are necessary because the City's operating expenses are spread over the entire fiscal year, and the collection of major revenue sources (property taxes, sales taxes, etc.) do not coincide with these expenses.

Short-term debt activity for the year ended June 30, 2002, was as follows (amounts in thousands):

	Balance June 30, 2001	Issued	Redeemed	Balance June 30, 2002
Tax anticipation notes	\$ -	\$ 188,800	\$ 188,800	\$ -

CITY OF HOUSTON, TEXAS
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2002

Note 8: Long-Term Liabilities

A. General Long-Term Liabilities

Changes in General Long-Term Liabilities for the year ended June 30, 2002 are summarized as follows (in thousands):

	<u>Balance June 30, 2001</u>	<u>Additions</u>	<u>Retirements/ Transfers</u>	<u>Balance June 30, 2002</u>	<u>Amounts Due within One Year</u>
Governmental Activities					
Bonds and notes payable					
General Tax Obligation Debt	\$ 1,868,940	\$ 590,490	\$ (535,244)	\$ 1,924,186	\$ 440,054
HUD Section 108 Loans	13,345	2,700	(785)	15,260	898
Plus premium on bonds	-	19,842	(1,697)	18,145	-
Less deferred amount on refundings	-	(8,652)	826	(7,826)	-
Total bonds and notes payable	<u>1,882,285</u>	<u>604,380</u>	<u>(536,900)</u>	<u>1,949,765</u>	<u>440,952</u>
Other liabilities:					
Claims and Judgments	71,044	8,249	-	79,293	29,810
Vacation and Sick Leave	308,255	-	(40,168)	268,087	20,478
Compensatory Time	54,525	30,692	-	85,217	6,509
Arbitrage Rebate	1,078	-	(404)	674	-
Total other liabilities	<u>434,902</u>	<u>38,941</u>	<u>(40,572)</u>	<u>433,271</u>	<u>56,797</u>
Governmental Activities Long-Term Liabilities	<u>\$ 2,317,187</u>	<u>\$ 643,321</u>	<u>\$ (577,472)</u>	<u>\$ 2,383,036</u>	<u>\$ 497,749</u>
Discretely Presented Component Units:					
Notes Payable	\$ 15,486	\$ 13,770	\$ (270)	\$ 28,986	\$ 1,745
Revenue Bonds	24,445	40,410	(1,390)	63,465	1,240
Discretely Presented Component Units Long-Term	<u>\$ 39,931</u>	<u>\$ 54,180</u>	<u>\$ (1,660)</u>	<u>\$ 92,451</u>	<u>\$ 2,985</u>

	<u>Balance June 30, 2001</u>	<u>Additions</u>	<u>Retirements/ Transfers</u>	<u>Balance June 30, 2002</u>	<u>Amounts Due within One Year</u>
Business-type activities					
Bonds and notes payable					
Airport System debt	\$ 1,509,620	\$ 85,475	\$ (85,855)	\$ 1,509,240	\$ 24,380
Convention and Entertainment debt	626,540	-	-	626,540	5,955
Water & Sewer System debt	3,418,360	936,090	(744,806)	3,609,644	175,370
Houston Area Water Corporation	-	130,260	-	130,260	-
Long-term contracts - water & sewer	267,187	-	(14,271)	252,916	14,726
Plus premium on bonds	68,573	38,827	(17,767)	89,633	-
Less deferred amount on refundings	(35,254)	(4,196)	9,685	(29,765)	-
Total bonds and notes payable	<u>5,855,026</u>	<u>1,186,456</u>	<u>(853,014)</u>	<u>6,188,468</u>	<u>220,431</u>
Other liabilities:					
Claims and Judgments	10,709	728	-	11,437	11,437
Compensated absences	31,049	-	(2,272)	28,777	1,035
Arbitrage Rebate	11,893	-	(783)	11,110	-
Total other liabilities	<u>53,651</u>	<u>728</u>	<u>(3,055)</u>	<u>51,324</u>	<u>12,472</u>
Business-type activities long-term liabilities	<u>\$ 5,908,677</u>	<u>\$ 1,187,184</u>	<u>\$ (856,069)</u>	<u>\$ 6,239,792</u>	<u>\$ 232,903</u>

CITY OF HOUSTON, TEXAS
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2002

THIS PAGE IS LEFT BLANK INTENTIONALLY

CITY OF HOUSTON, TEXAS
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2002

B. Schedule of Changes in Bonds and Long-Term contracts (amounts expressed in thousands)

	Stated Interest Rate Range	Face Value Outstanding 7/1/2001	FY02 Issued/ Increased
General Tax Obligation Debt			
General Obligation Bonds	3.6 to 5.40	\$ 3,365	\$ -
Public Improvement Bonds	0.05 to 8.00	1,337,500	426,525
Commercial Paper	3.25 to 10.0	376,300	160,000
Annexed District Bonds	3.05 to 10.5	106,176	-
Tax and Revenue Certificates of Obligation	4.5 to 5.3	42,703	3,965
Total General Tax Obligation Debt		\$ 1,866,044	\$ 590,490
HUD Section 108 Loans	5.5 to 7.7	\$ 13,345	\$ 2,700
Revenue Bonded Debt			
Airport System Bonds			
Subordinate Lien Refunding Revenue Bonds	4.90 to 6.75	\$ 1,509,620	\$ 65,475
Commercial Paper	2.10 to 5.95	-	20,000
		<u>1,509,620</u>	<u>85,475</u>
Convention and Entertainment Facilities			
Senior Lien Hotel Occupancy Tax/Parking Facilities	5.0 to 6.0	626,540	-
		<u>626,540</u>	<u>-</u>
Water & Sewer System Facilities			
Water & Sewer System Prior Lien Revenue Bonds	4.40 to 8.50	250,530	-
Water and Sewer System Junior Lien Revenue Bonds	2.72 to 7.00	2,867,830	756,090
Water and Sewer System Commercial Paper	2.5 to 10.0	300,000	180,000
		<u>3,418,360</u>	<u>936,090</u>
Houston Area Water Corporation	3.75 to 5.50	-	130,260
Long-Term Contracts-Water & Sewer System			
Coastal Water Authority	4.35 to 7.50	254,187	-
Trinity River Authority	4.00 to 7.10	13,000	-
		<u>267,187</u>	<u>-</u>
Total Revenue Bonded Debt and Long-Term Contracts, Primary Government		\$ 5,821,707	\$ 1,151,825
Total Bonds and Long-Term Contracts Payable, Primary Government		\$ 7,701,096	\$ 1,745,015

(1) Adjustments consist of unamortized bond premiums, discounts, and deferred (gains) losses from bond refundings.

CITY OF HOUSTON, TEXAS
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2002

FY02 Redeemed/Refunded	Face Value Outstanding 6/30/02	Adjustments⁽¹⁾	Net Outstanding 6/30/2002
\$ -	\$ 3,365	\$ -	\$ 3,365
296,685	1,467,340	10,320	1,477,660
217,000	319,300	-	319,300
8,775	97,401	1,522	98,923
12,140	34,528	729	35,257
<u>\$ 534,600</u>	<u>\$ 1,921,934</u>	<u>\$ 12,571</u>	<u>\$ 1,934,505</u>
<u>\$ 785</u>	<u>\$ 15,260</u>	<u>\$ -</u>	<u>\$ 15,260</u>
\$ 85,855	\$ 1,489,240	\$ (29,765)	\$ 1,459,475
-	20,000	-	20,000
<u>85,855</u>	<u>1,509,240</u>	<u>(29,765)</u>	<u>1,479,475</u>
-	626,540	10,681	637,221
-	626,540	10,681	637,221
17,820	232,710	-	232,710
366,986	3,256,934	73,179	3,330,113
360,000	120,000	-	120,000
<u>744,806</u>	<u>3,609,644</u>	<u>73,179</u>	<u>3,682,823</u>
-	130,260	(910)	129,350
12,771	241,416	6,683	248,099
1,500	11,500	-	11,500
<u>14,271</u>	<u>252,916</u>	<u>6,683</u>	<u>259,599</u>
<u>\$ 844,932</u>	<u>\$ 6,128,600</u>	<u>\$ 59,868</u>	<u>\$ 6,188,468</u>
<u>\$ 1,380,317</u>	<u>\$ 8,065,794</u>	<u>\$ 72,439</u>	<u>\$ 8,138,233</u>

CITY OF HOUSTON, TEXAS
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2002

C. Terms of Long-Term Debt

1. General Obligation Bonds

These bonds are payable from the general revenue of the City. No new General Obligation Bonds were issued this fiscal year.

2. Public Improvement Bonds

The City has issued Public Improvement Bonds on numerous occasions. The proceeds are used for street and bridge improvements, traffic signals, municipal buildings, parks, and other capital improvements. Interest is payable semi-annually; principal is payable annually through March 1, 2023.

3. General Obligation Commercial Paper

The City currently issues Commercial Paper Notes ("Notes") under its \$535,000,000 General Obligation Commercial Paper Program, Series A, its \$166,300,000 General Obligation Commercial Paper Program, Series B its \$100,000,000 General Obligation Commercial Paper Program, Series C and its \$165,000,000 General Obligation Commercial Paper Program Series, D. The Notes may be issued for a period not to exceed 270 days and will bear interest based upon the specified term of the Notes, but not to exceed 10%. Principal on the Notes is payable from ad valorem tax revenue, the issuance of new commercial paper, bond proceeds and other funds provided under the line of credit. Interest is payable as the Notes mature from ad valorem tax revenue collected by the City. Proceeds from the Notes are used to finance various capital projects and public improvements for authorized City purposes. Upon maturity, the Notes will be remarketed by the commercial paper dealers or extinguished with long-term debt.

During fiscal year 2002 the weighted average interest rate for the Series A, B, C and D Notes was 2.145%, 2.12% and 2.132% respectively. The Series A, B, C and D lines of credit expire on June 16, 2003, March 31, 2003, June 30, 2003 and June 16, 2003 respectively.

On September 11, 2001, the City issued \$277,135,000 Series A Public Improvement Refunding Bonds. The Bonds were issued to convert \$187,000,000 Series A and \$30,000,000 Series C General Obligation Commercial Paper to long-term fixed rate debt. Proceeds were used to purchase an escrow of Government Obligations to extinguish the Commercial Paper Notes.

4. Annexed District Bonds Assumed

The City has assumed general tax obligation debt of annexed districts. The payment dates and maturities vary, but in general, interest is payable semi-annually and principal is payable annually. Interest rates range from 3.05 to 10.5 percent, and the final maturity date is October 1, 2021.

5. Certificates of Obligation

Since 1988, the city has issued Certificates of Obligation each year to provide for the purchase of equipment utilized in general City operations including, without limitation, police vehicles, maintenance vehicles and equipment, computer equipment, and costs associated with demolishing dangerous structures. Each year the City is obligated to levy, assess, and collect ad valorem taxes sufficient to pay principal and interest on the certificates payable semi-annually until maturity. Generally, these certificates are not subject to redemption prior to maturity on September 1, 2010.

On September 11, 2001, the City issued \$3,965,000 Certificates of Obligation Bonds Series 2001C. Proceeds from the sale of the Bonds will be used to pay contractual obligations incurred for the demolition of dangerous structures within the City and Cost of Issuance associated with the Bonds. The Bonds were issued at a rate of 4%.

6. HUD Section 108 Loan

The City's Housing Department has borrowed money from HUD which in turn is loaned to the Houston Small Business Development Corp. (HSBDC). HSBDC in turn makes small business loans to under-served areas of the community. In 2002 a total of 27 loans were made totaling \$2.7 million. The smallest loan was for \$15,000, the largest for \$250,000. The beginning balance of monies owed to HUD was \$13,345,000 and ending balance was \$15,260,000. The change in balance was accomplished by additional financing from HUD and paydown on existing loans.

7. Airport System Revenue Bonds

These funds are paid solely from a lien on the net airport system's revenues, which must total 110% of the debt service requirements for Subordinate Lien Bonds for such fiscal year. The bonds have a final maturity in the year 2031.

CITY OF HOUSTON, TEXAS
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2002

The Airport System has issued \$100,000,000 in variable rate debt as Airport System Revenue Bonds, Series 2000P-1, P-2 (AMT). The revenue bonds are issued as Periodic Auction Reset Securities (PARS). An auction determines the interest rate for the next Auction Period. The Auction Period for the Series 2000P-1 bonds is 7 days long. The Auction Period for the Series 2000P-2 bonds is 28 days long. At June 30, 2002, the interest rates on Series 2000 P-1 and P-2 bonds were 1.65% and 1.68%, respectively.

The City purchased a Municipal Debt Service Reserve Fund Policy concurrently with the issuance of the Airport System Subordinate Lien Revenue Bonds in 2001A. The reserve policy unconditionally guarantees the payment of principal and interest on all current outstanding airport system subordinate lien issues as of the date of the Series 2001A Bonds. The reserve policies terminate on various dates in the future. Each of the draws made against the reserve policy shall bear interest at the Prime Rate plus two percent, not to exceed a maximum interest rate of 12%. The repayment provisions require one-twelfth of the policy costs for each draw to be repaid monthly, beginning the first month following the date of each draw.

8. Airport System Commercial Paper

Airport System Commercial Paper Notes (the "Notes") have been authorized for \$150 million Series A and B, and \$150 million Series C to establish, improve, enlarge, extend and repair the City's Airport System, acquire land, and pay interest and cost of issuance of the Notes. As of June 30, 2002, \$15 million is outstanding in series A and \$5 million is outstanding in Series B.

Series A and B are collateralized by a direct pay letter of credit issued by a commercial bank, and a lien on the net revenues of the Airport System. The letter of credit was \$161,095,890 at June 30, 2002. It will terminate on January 18, 2003.

The Series C is backed by a lien on the net revenues of the Airport System, but is not collateralized. As of June 30, 2002, there are no outstanding Notes in Series C.

9. Convention and Entertainment Facilities Bonds

These bonds are special limited obligations of the City that are paid solely from a lien on pledged revenues of the Hotel Occupancy Tax pledged parking revenues and pledged tax rebates from the Convention Center Hotel. The pledged revenues are equal to 5.65% of the cost of substantially all hotel room rentals in the City and related penalties and interest for delinquent payments. So long as any of the Senior Lien Bonds remain outstanding, the City is required to levy a Hotel Occupancy Tax at a rate not less than 7%. The City currently levies a Hotel Occupancy Tax at the rate of 7%. Final maturity of the bonds is September 1, 2033.

The Series 2001C Bonds consist of two sub-series (respectively, the "Series 2001C-1 Bonds" and the "Series 2001C-2 Bonds"). Such bonds are issued initially pursuant to the Ordinance as Auction Rate Certificates ("ARCs") and are subject to conversion at the option of the City and subject to certain restrictions, to bonds that bear interest at rates other than Auction Rates. The Auction Date for the Series 2001C ARCs will generally occur every 35 days commencing as follows: (i) June 6, 2001 for the Series 2001C-1 Bonds; and (ii) June 20, 2001 for the Series 2001C-2 Bonds. The Series 2001C Bonds, while outstanding as ARCs, will bear interest at the applicable Auction Rate. Notwithstanding the establishment of the applicable Auction Rate, the Maximum Interest Rate permitted under the Ordinance with respect to the Series 2001C ARCs is 10%. At June 30, 2002, the interest rates on Series 2001 C-1 and C-2 bonds were 1.40% and 1.44%, respectively.

10. Water and Sewer System Commercial Paper

Water and Sewer System Commercial Paper Notes, Series A and Series B have been authorized for \$500 and \$200 million, respectively to finance the costs of additions, improvements and extensions to the City's Water and Sewer System. The notes are issued as subordinate lien debt. The maturity of the Notes may not exceed 270 days and the maximum interest rate may not exceed 10%. Upon maturity, the Notes will be remarketed by the commercial paper dealer or extinguished with long-term debt. The Commercial Paper Notes are supported by a line of credit which expires on June 9, 2003 Series A and Series B.

11. Water and Sewer System Prior and Junior Lien Revenue Bonds

These bonds are paid solely from a lien on the net water and sewer system revenues, which must total 120% of the current year debt service for the prior lien bonds plus required additions to the prior lien reserve fund, plus 110% of the current debt service requirements on the junior lien bonds. The bonds mature December 1, 2032.

CITY OF HOUSTON, TEXAS
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2002

On March 7, 2002, the City issued \$425,030,000 Series A Water and Sewer System Junior Lien Revenue Refunding Bonds. The Bonds were issued to convert \$420,000,000 of Water and Sewer Commercial Paper Notes to long-term fixed rate debt. Proceeds were used to purchase an escrow of Government Obligations to extinguish the Water and Sewer Commercial Paper Notes.

On June 2, 2002, the City entered into a Loan Agreement with the Texas Water Development Board with a commitment amount of \$6,135,000 Water and Sewer System Bonds, Series 2002C. On the date of close an initial draw was made in the amount of \$180,000. The initial draw was used to pay cost of issuance of the Note. No other draws were made during this fiscal year.

12. Coastal Water Authority (CWA)

The amount of the contract payable to the CWA represents the outstanding principal balance at June 30, 2002 of certain revenue bonds issued by CWA, a governmental agency of the State of Texas to finance the construction of a water conveyance system. Pursuant to a series of exchange agreements with CWA, the City has endorsed these bonds and is unconditionally obligated to pay from the gross operating revenues of the City's water system all debt service payments on these bonds and amounts necessary to restore deficiencies in funds required to be accumulated under the CWA bond resolutions. The contract matures on December 15, 2019.

13. Trinity River Authority (TRA)

The amount of the contract payable to the TRA represents the outstanding principal balance at June 30, 2002 of certain revenue bonds issued by TRA, a governmental agency of the State of Texas, to finance construction of a dam and reservoir on the Trinity River near Livingston, Texas. Pursuant to a contract with TRA, the City has endorsed the bonds associated only with this project and is unconditionally obligated to pay from the gross operating revenues of the City's water system maintenance and operating expense of the reservoir and amounts necessary to restore any deficiencies in funds required to be accumulated under the TRA bond resolutions.

As consideration for the above obligation, the City receives a perpetual 70% beneficial interest in these reservoir facilities and the use of 70% of the reservoir water. As consideration for the remaining 30% interest in the reservoir facilities and water, TRA is obligated to allow the City credits for water usage. Consequently, the cost of the City's obligation of TRA has not been reflected in the City's accounts as a receivable or as a reduction of the cost of the City's 70% interest in the facilities. Of the total amounts paid by the City, as of November 30, 1997 (TRA's fiscal year-end) over \$51 million is contingently recoverable from TRA through credits based on future water sales by TRA. The bonds mature on April 15, 2008.

14. Houston Area Water Corporation (HAWC)

These bonds have been issued to provide financing for the acquisition of rights-of-way and real property interests, and the design, construction and equipping of the Northeast Water Purification Plant and a water conveyance system, along with all extensions, additions, enlargements, improvements and modifications thereto, to repay interim financing by the City to fund all or a portion of the amount equal to the reserve fund requirement, to fund capitalized interest and to pay costs of issuance relating to the Series 2002 Bonds.

CITY OF HOUSTON, TEXAS
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2002

D. Schedule for Debt Service Requirements to Maturity (in thousands):

1. General Long-Term Tax Obligation Debt (adjusted for Capital Appreciation and Deferred Interest Bonds reclassification of principal & interest) (in thousands):

Year Ending June 30	General Obligation Bonds		Public Improvement Bonds		General Obligation Commercial Paper	
	Principal	Interest	Principal	Interest	Principal	Interest
2003	\$ 103,270	\$ 78,581	\$ 1,000	\$ 143	\$ 319,300	\$ 4,311
2004	103,615	73,597	1,000	93	-	-
2005	111,140	68,338	1,365	34	-	-
2006	126,665	62,557	-	-	-	-
2007	127,885	55,432	-	-	-	-
2008-2012	445,610	184,796	-	-	-	-
2013-2017	300,005	86,414	-	-	-	-
2018-2022	131,985	20,026	-	-	-	-
2023-2027	17,165	858	-	-	-	-
	<u>\$ 1,467,340</u>	<u>\$ 630,599</u>	<u>\$ 3,365</u>	<u>\$ 270</u>	<u>\$ 319,300</u>	<u>\$ 4,311</u>

Year Ending June 30	Annexed District Bonds		Tax and Revenue Certificates of Obligation		Total Future Requirements	
	Principal	Interest	Principal	Interest	Principal	Interest
2003	\$ 9,084	\$ 6,176	\$ 7,400	\$ 1,377	\$ 440,054	\$ 90,588
2004	9,977	4,985	2,440	1,023	117,032	79,698
2005	10,045	4,066	2,510	915	125,060	73,353
2006	9,740	3,556	3,750	802	140,155	66,915
2007	10,200	3,045	1,075	649	139,160	59,126
2008-2012	36,830	7,461	9,054	7,160	491,494	199,417
2013-2017	10,165	1,475	4,125	1,791	314,295	89,680
2018-2022	1,360	131	4,174	557	137,519	20,714
2023-2027	-	-	-	-	17,165	858
	<u>\$ 97,401</u>	<u>\$ 30,895</u>	<u>\$ 34,528</u>	<u>\$ 14,274</u>	<u>\$ 1,921,934</u>	<u>\$ 680,349</u>

2. HUD Section 108 Loans

Year Ending June 30	Section 108 Loans		
	Principal	Interest	Total Future Requirements
2003	\$ 898	\$ 723	\$ 1,621
2004	898	623	1,521
2005	898	531	1,429
2006	898	447	1,345
2007	898	516	1,414
2008-2012	4,488	1,979	6,467
2013-2017	4,488	1,628	6,116
2018-2022	1,794	275	2,069
	<u>\$ 15,260</u>	<u>\$ 6,722</u>	<u>\$ 21,982</u>

CITY OF HOUSTON, TEXAS
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2002

3. Business-type Funds (adjusted for Capital Appreciation and Deferred Interest Bonds reclassification of principal & interest) (in thousands):

Year Ending June 30	Airport System Revenue Bonds		Airport System Commercial Paper		Total Future Requirements	
	Principal	Interest	Principal	Interest	Principal	Interest
	2003	\$ 4,380	\$ 75,114	\$ 20,000	\$ 270	\$ 24,380
2004	17,985	74,234	-	-	17,985	74,234
2005	18,865	73,423	-	-	18,865	73,423
2006	26,690	72,152	-	-	26,690	72,152
2007	28,285	70,789	-	-	28,285	70,789
2008-2012	165,250	329,798	-	-	165,250	329,798
2013-2017	215,025	280,086	-	-	215,025	280,086
2018-2022	279,050	215,602	-	-	279,050	215,602
2023-2027	364,860	134,631	-	-	364,860	134,631
2028-2032	368,850	30,683	-	-	368,850	30,683
2033-2034	-	-	-	-	-	-
	<u>\$ 1,489,240</u>	<u>\$ 1,356,512</u>	<u>\$ 20,000</u>	<u>\$ 270</u>	<u>\$ 1,509,240</u>	<u>\$ 1,356,782</u>

Year Ending June 30	Convention and Entertainment Facilities		
	Principal	Interest	Total Future Requirements
	2003	\$ 5,955	\$ 21,115
2004	6,265	20,810	27,075
2005	6,590	20,488	27,078
2006	13,680	19,973	33,653
2007	14,775	19,244	34,019
2008-2012	105,485	81,201	186,686
2013-2017	126,455	60,565	187,020
2018-2022	94,337	85,962	180,299
2023-2027	95,989	110,407	206,396
2028-2032	109,164	126,186	235,350
2033-2034	47,845	52,063	99,908
	<u>\$ 626,540</u>	<u>\$ 618,014</u>	<u>\$ 1,244,554</u>

Year Ending June 30	Water and Sewer System		Water and Sewer System Commercial Paper		Total Future Requirements	
	Principal	Interest	Principal	Interest	Principal	Interest
	2003	\$ 55,370	\$ 177,938	\$ 120,000	\$ 1,620	\$ 175,370
2004	54,963	179,529	-	-	54,963	179,529
2005	77,376	166,907	-	-	77,376	166,907
2006	90,186	163,335	-	-	90,186	163,335
2007	87,008	164,975	-	-	87,008	164,975
2008-2012	457,372	820,949	-	-	457,372	820,949
2013-2017	692,415	590,592	-	-	692,415	590,592
2018-2022	657,155	552,771	-	-	657,155	552,771
2023-2027	701,515	508,389	-	-	701,515	508,389
2028-2032	522,149	302,137	-	-	522,149	302,137
2033-2037	94,135	2,706	-	-	94,135	2,706
	<u>\$ 3,489,644</u>	<u>\$ 3,630,228</u>	<u>\$ 120,000</u>	<u>\$ 1,620</u>	<u>\$ 3,609,644</u>	<u>\$ 3,631,848</u>

CITY OF HOUSTON, TEXAS
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2002

Houston Area Water Corporation			
Year Ending June 30	Principal	Interest	Total Future Requirements
2003	\$ -	\$ 5,331	\$ 5,331
2004	-	6,710	6,710
2005	-	6,710	6,710
2006	2,365	6,710	9,075
2007	2,485	6,592	9,077
2008-2012	14,070	31,312	45,382
2013-2017	18,105	27,281	45,386
2018-2022	23,605	21,778	45,383
2023-2027	30,470	14,911	45,381
2028-2032	39,160	6,221	45,381
	\$ 130,260	\$ 133,556	\$ 263,816

Year Ending June 30	Coastal Water Authority		Trinity River Authority		Total Future Requirements	
	Principal	Interest	Principal	Interest	Principal	Interest
2003	\$ 13,226	\$ 15,651	\$ 1,500	\$ 688	\$ 14,726	\$ 16,339
2004	14,105	14,875	2,000	596	16,105	15,471
2005	15,460	12,510	2,000	471	17,460	12,981
2006	16,505	11,494	2,000	346	18,505	11,840
2007	18,150	10,395	2,000	221	20,150	10,616
2008-2012	77,745	36,126	2,000	96	79,745	36,222
2013-2017	56,275	14,923	-	-	56,275	14,923
2018-2022	15,030	5,681	-	-	15,030	5,681
2023-2027	14,920	1,537	-	-	14,920	1,537
2028-2032	-	-	-	-	-	-
	\$ 241,416	\$ 123,192	\$ 11,500	\$ 2,418	\$ 252,916	\$ 125,610

E. Debt Refundings

Throughout its history, the City has issued refunding bonds from time to time when there has been an operational or economic gain for the City. These refundings have been structured as legal defeasances of the old debt as ruled by the Texas Attorney General, and such debt, including the debt balances refunded during fiscal 2002 described below, has been removed from the City's books.

On September 6, 2001, the City issued \$232,440,000 of Water and Sewer System Junior Lien Revenue Refunding Bonds, Series 2001A. The Bonds were issued to refund \$54,740,000 Series 1991A and \$174,975,000 Series 1991C Water and Sewer Junior Lien Bonds and were issued at rates of 4.25% - 5.00%. Proceeds were used to purchase an escrow consisting of U. S. Government State and Local Government Securities for all future debt service payments of the refunded bonds. The reacquisition price exceeded the net carrying amount of the old debt by \$9,844,109. This amount is being netted against the new debt and amortized over the remaining life of the refunded debt. This advance refunding was undertaken to reduce the total debt service payments over the next 20 years by \$25,958,667 and resulted in an economic gain of \$22,638,708.

On September 11, 2001, the City issued \$277,135,000 Public Improvement Refunding Bonds, Series 2001A. The Bonds were issued to refund \$6,225,000 Series 1991A, \$19,165,000 Series 1992C, \$30,550,000 Series 1995C Public Improvement Bonds and \$160,000,000 in Commercial Paper and were issued at rates of 4.00% -5.375%. Proceeds were used to purchase an escrow consisting of U. S. Government State and Local Government Securities for all future refunded debt service payments.

The reacquisition price exceeded the net carrying amount of the old debt by \$3,534,447. This amount is being netted against the new debt and amortized over the remaining life of the refunded debt. This advance refunding was undertaken to lower interest rate exposure and resulted in an economic gain of \$1,420,641.

CITY OF HOUSTON, TEXAS
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2002

On November 29, 2001, the City issued \$98,440,000 of Water and Sewer System Junior Lien Revenue Refunding Bonds, Series 2001B. The Bonds were issued to refund \$98,155,000 Series 1999D Water and Sewer Junior Lien Bonds and were issued at a rate of 5.50%. Proceeds were used to purchase an escrow consisting of U. S. Government State and Local Government Securities for all future debt service payment of the refunded bonds. The reacquisition price exceeded the net carrying amount of the old debt by \$285,000. This amount is being netted against the new debt and amortized over the remaining life of the refunded debt. This current refunding was undertaken to lower the total debt service payments over the next 30 years by \$17,453,580 and resulted in an economic gain of \$8,308,870.

On December 13, 2001, the City issued \$149,300,000 Public Improvement Forward Refunding Bonds, Series 2001B. The Bonds were issued to refund \$151,600,000 Series 1992C Public Improvement Bonds and were issued at rates of 4.50% to 5.50%. Proceeds were used to purchase an escrow consisting of U. S. Government State and Local Government Securities for all future debt service payments of the refunded bonds. The reacquisition price exceeded the net carrying amount of the old debt by \$4,605,306. This amount is being netted against the new debt and amortized over the remaining life of the refunded debt, which is shorter than the life of the new debt issued. This current refunding was undertaken to lower the total debt service payments over the next 18 years by \$42,002,314 and result in an economic gain of \$5,382,481.

On December 17, 2001, the City issued \$65,475,000 Airport System Subordinate Lien Revenue Refunding Bonds, Series 2001A (AMT). The Bonds were issued to refund \$66,395,000 Series 1991A Airport System Subordinate Lien Revenue Bonds and were issued at rates of 4.00% - 5.50%. Proceeds were used to purchase an escrow consisting of U.S. Government State and Local Government Securities for all future debt service payments of the refunded bonds. The reacquisition price exceeded the net carrying amount of the old debt by \$3,406,893. This amount is being netted against the new debt and amortized over the remaining life of the refunded debt. This current refunding was undertaken to lower total debt service payments over the next 21 years by \$16,473,002 and result in an economic gain of \$9,019,027.

F. Bond Compliance Requirements

The revenue bond ordinances require that during the period in which the bonds are outstanding the City must create and maintain certain accounts or "funds" to receive the proceeds from the sale of the revenue bond and to account for the revenues (as defined), which are generally pledged for payment of the bonds. The assets can be used only in accordance with the terms of the bond ordinance and for the specific purpose(s) designated therein. The city is generally required to make a monthly transfer to debt service funds equal to one-sixth of the next interest payment and one-twelfth of the next principal payment. Certain bond ordinances have additional requirements for the establishment of rates and the accumulation of principal and interest repayment amounts from surplus operating funds. Generally, the bonds may be redeemed prior to their maturities in accordance with the bond ordinances and at various premiums equal to or less than 4%. During 2002, the City has substantially complied with the requirements of all revenue bond ordinances and related bond restrictions.

G. Voter Authorized Obligations

On November 4, 1997, voters of the City authorized the issuance of \$545,000,000 of Public Improvement Bonds. On March 4, 1998, City Council passed ordinance 98-158, stipulating that \$100,000 of the \$545,000,000 authorized issuance is to be issued as general obligation commercial paper. In fiscal year 2000, ordinance numbers 99-199 stipulating \$100,000,000, and 99-949 stipulating \$108,700,000 of the \$545,000,000 authorized issuance is to be issued as General Obligation Commercial Paper. In fiscal year 2001, ordinance number 2000-480 stipulating \$133,000,000 of the authorized issuance is to be issued as General Obligation Commercial Paper. As of June 30, 2002, no authorization was available under the November 4, 1997 voter authorization Commercial Paper Program. On November 4, 2001, voters of the City authorized the issuance of \$776,000,000 of Public Improvement Bonds. On June 18, 2002, City Council passed an ordinance stipulating \$165,000,000 of the \$776,000,000 to be issued as General Obligation Commercial Paper.

In addition, the City is authorized by the City Charter to issue annually \$100,000 in general improvement bonds without voter approval.

H. Legal Debt Margin

At June 30, 2002 the City's legal debt limit was 10% of assessed property valuation totaling \$95,463,127,000. The City's legal debt margin was \$7,399,990,000.

CITY OF HOUSTON, TEXAS
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2002

Note 9: Leases

A. City as Lessee

The City has obtained data processing and other equipment through long-term operating leases. The future minimum payments under these agreements are as follows (in thousands):

<u>Year ended June 30</u>	<u>Lease Payments</u>
2003	\$ 6,837
2004	5,807
2005	5,123
2006	3,317
2007	2,507
2008	727
Total	<u>\$ 24,318</u>

B. City as Lessor

The Airport System is the lessor of approximately 10 percent of its land and substantially all of its buildings and improvements. These lease agreements are noncancellable operating leases with fixed minimum rentals and noncancellable operating use and lease agreements with annually adjusted rates. Rental income is earned from leasing various parcels of land to airlines, fixed base operators and various corporations for hangars, aircraft maintenance facilities, flight kitchens and cargo buildings; to auto rental companies for their service facilities and storage lots; and to a variety of other entities for buildings and other permanent improvements. Minimum guaranteed income on such noncancellable operating leases is as follows (in thousands):

<u>Year Ended June 30</u>	<u>Minimum Rental Income</u>
2003	\$ 18,185
2004	10,674
2005	8,915
2006	6,182
2007	6,194
Thereafter	117,998
Total	<u>\$ 168,148</u>

The contingent income associated with these noncancelable operating leases was \$12,580,936 in Fiscal Year 2002. In addition, income is earned from certain noncancellable operating use and lease agreements for landing fees and terminal building rentals. Such income is adjusted annually based on a compensatory formula to recover certain operating and capital costs of the related facilities. Such income for Fiscal Year 2002 was \$122,540,000.

Note 10: Pension Plans

A. Plan Descriptions

The City has three single employer defined benefit pension plans (Firefighters' Relief and Retirement Fund, Municipal Employees' Pension System, and the Police Officers' Pension System) which cover substantially all of its employees. These pension plans were established under the authority of Texas statutes (Vernon's Texas Civil Statutes, Articles 6243.e2 (1), 6243g, 6243g-4, respectively), which establish the various benefit provisions. All plans provide for service-connected disability and death benefits to survivors, with no age or service eligibility requirements. Employer and employee obligations to contribute, as well as employee contribution rates, are included in the statutes. Additionally, these laws provide that employer funding be based on periodic actuarial valuations. All pension plans provide service, disability, death, and vesting benefits. The specific summary plan description is available at the plan offices listed in footnote 1.

CITY OF HOUSTON, TEXAS
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2002

B. Actuarially Determined Contribution Requirements and Contributions Made

The City's funding policies provide for actuarially determined periodic contributions at rates such that, over time, they will remain level as a percent of payroll. The contribution rate for normal cost is determined using the entry age normal actuarial cost method. The firefighters' and municipal pension plans use the level percentage of payroll method to amortize the unfunded actuarially accrued liability (or surplus) over 40 years from January 1, 1983 and the police pension uses the level percentage of payroll method to amortize the unfunded actuarially accrued liability over 30 years (constant).

The reported contributions to the pension funds for the year ended June 30, 2002, were made in accordance with actuarially determined requirements based on 2001 actuarial valuation for Firefighters', 2001 actuarial valuation for Police and 2000 actuarial valuation for Municipal. Contributions are as follows:

<u>Percentage of Payroll</u>	<u>Firefighters</u>	<u>Municipal</u>	<u>Police</u>
City of Houston normal cost	22.3%	7.5%	15.5%
Additional statutory requirement	0.5%	-	-
Amortization of unfunded actuarial accrued liability (surplus)	(7.4%)	2.0%	0.8%
Required contribution rate	<u>15.4%</u>	<u>9.5%</u>	<u>16.3%</u>
Employer contribution made	<u>15.4%</u>	<u>10.0%</u>	<u>16.3%</u>
Employee contribution made	<u>7.7%</u>	<u>4.0%</u>	<u>8.75%</u>
<u>Contribution Amounts (in thousands)</u>			
Net contribution required	<u>\$ 42,669</u>	<u>\$ 40,758</u>	<u>\$ 55,129</u>
Total city contribution	\$ 28,451	\$ 40,758	\$ 32,645
Total employee contribution	<u>14,218</u>	<u>13,476</u>	<u>22,484</u>
Total contribution	<u>\$ 42,669</u>	<u>\$ 54,234</u>	<u>\$ 55,129</u>

The significant actuarial assumptions used to compute the actuarially determined contribution requirements and the annual pension costs are described in the Required Pension System Supplementary Information following these Notes to the Basic Financial Statements.

Note 11: Other Employee Benefits

A. Post-Retirement Health Insurance Benefits

Pursuant to a City Ordinance, the City provides certain health care benefits for retired employees. Substantially all of the City's employees become eligible for these benefits if they reach normal retirement age while working for the City. Contributions are recognized in the year paid. The cost of retiree health care contributions incurred by the City amounted to approximately \$21,651,677 for the year ended June 30, 2002. Retiree health care is accounted for in the Health Benefits Fund, an Internal Service Fund. At June 30, 2002, there were 6,103 retirees eligible to receive benefits.

B. Health Benefits Internal Service Fund

The City's Health Benefits plan is currently administered by HMO Blue Texas. Employees and retirees are able to choose between an HMO Plan with all benefits covered by third party purchased insurance or a substantially self insured with specific individual aggregate stop loss features Point of Service Plan (POS) and an Out-Of-Area Plan (OOA). Specific and aggregate stop loss insurance is provided for the POS and OOA plan of \$300,000 and approximately \$6,000,000 based on enrollment, respectively. Premiums paid for current employees to third party administrators totaled approximately \$99,234,748 for the year ended June 30, 2002.

CITY OF HOUSTON, TEXAS
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2002

The City also provides 1 times salary of basic life insurance, with a minimum of \$15,000, at no cost to the employee. The employee at no cost to the City may then obtain additional life insurance up to four times their annual salary. The current costs for active employees for both basic and voluntary life insurance totaled \$5,510,898 for the year ended June 30, 2002.

POS and OOA		
Schedule of Changes in Liability		
(in thousands)		
	June 30, 2002	June 30, 2001
Beginning actuarial estimate of claims liability, July 1	\$ 1,380	\$ 1,350
Incurring claims for fiscal year	6,748	5,587
Payments on claims	(7,661)	(5,283)
Actuarial adjustment	1,133	(274)
Ending actuarial estimate of claims liability, June 30	\$ 1,600	\$ 1,380

C. Long-Term Disability Plan

The long-term disability plan, accounted for as an internal service fund, is a part of the Income Protection Plan implemented effective September 1, 1985 (renamed the Compensable Sick Leave Plan (CSL) in October, 1996) and is provided at no cost to City employees who are members of CSL. Coverage is effective the later of September 1, 1985 or upon completion of two years of continuous service. When an employee cannot work because of injury or illness, the plan provides income equal to 50% of base pay plus longevity or 70% of base plus longevity when combined with income benefits available from other sources. Plan benefits may be payable after all CSL scheduled sick leave benefits, including frozen sick leave days, have been used, however, not before six months absence from work. The plan is administered by Disability Management Alternatives, Inc., which is reimbursed from the fund for claims as they are paid along with a fee for administrative services.

Schedule of Changes in Liability		
(in thousands)		
	June 30, 2002	June 30, 2001
Beginning actuarial estimate of claims liability, July 1	\$ 4,140	\$ 4,575
Incurring claims for fiscal year	1,324	1,325
Payments on claims	(586)	(522)
Actuarial adjustment	(306)	(1,238)
Ending actuarial estimate of claims liability, June 30	\$ 4,572	\$ 4,140

D. Deferred Compensation Plan

The City offers its employees a deferred compensation plan (Plan), created in accordance with Internal Revenue Code Section 457 as a separately administered trust. The Plan, available to all City employees permits employees to defer a portion of their salary until future years. The deferred compensation is not available until termination, retirement, death or unforeseeable emergency. However, the plan now offers loans to participant employees up to 50% of the balance in their account less any outstanding loans. Pursuant to tax law changes, the Plan's assets are no longer subject to the claims of the City's general creditors and are not included in these financial statements.

E. Workers' Compensation Self-Insurance Plan

The City has established a Workers' Compensation Self-Insurance Plan, accounted for within the various operating funds. The plan is administered by Ward North America, Inc. Funds are wire transferred to Ward as needed to pay claims.

CITY OF HOUSTON, TEXAS
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2002

At June 30, 2002 the City has an accumulated liability in the amount of \$56.0 million covering estimates for approved but unpaid claims and incurred but not reported claims (calculated on an actuarial basis) recorded in the Statement of Net Assets and Enterprise Funds. The amount of liability is based on the estimate of an independent actuary.

	Schedule of Changes in Liability	
	(in thousands)	
	June 30, 2002	June 30, 2001
Beginning actuarial estimate of claims liability, July 1	\$ 49,565	\$ 43,666
Incurred claims for fiscal year	11,955	13,249
Payments on claims	(22,728)	(22,243)
Actuarial adjustment	17,204	14,893
Ending actuarial estimate of claims liability, June 30	<u>\$ 55,996</u>	<u>\$ 49,565</u>

Note 12: Interfund Transactions

A. Transfers

Transfers during the year ended June 30, 2002, were as follows (in thousands):

Transferred from:	Transferred to:					Total Transfers Out
	General Fund	Special Revenue	Debt Service	Capital Projects	Convention & Entertainment Facilities	
General Fund	\$ -	\$ -	\$ 169,000	\$ -	\$ -	\$ 169,000
Nonmajor Funds	-	172	1,933	1,500	5,623	9,228
Water & Sewer	24,100	32,808	36,479	12,053	-	105,440
Total Transfers In	<u>\$ 24,100</u>	<u>\$ 32,980</u>	<u>\$ 207,412</u>	<u>\$ 13,553</u>	<u>\$ 5,623</u>	<u>\$ 283,668</u>

Transfers are used to (1) move receipts restricted to debt service from the funds collecting the receipts to the debt service fund as debt service payments become due and (2) use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

In the year ended June 30, 2002, the City made a one-time transfer of \$24.1 million from the Water and Sewer Fund to the General Fund to offset the \$22.4 million shortfall in revenues compared to the amounts budgeted.

B. Transfers to Component Units

Transfers to the Cultural Arts Council of Houston from the Convention and Entertainment Facilities during the year ended June 30, 2002 totaled \$8,454,067.

C. Interfund Charges

The General Fund charges the Water and Sewer System, Airport System, Convention and Entertainment Facilities, Capital Project, Sign Administration, Auto Dealer's and Cable Television Funds for services provided by the General Fund on behalf of these funds. Such charges totaled \$88,200,000 for the year ended June 30, 2002, and are recorded as revenue in the General Fund and as expense, expenditure or capital assets in the funds assessed.

CITY OF HOUSTON, TEXAS
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2002

Included in the Fiscal Year 2002 total are charges to the funds for direct and indirect expenses as shown below (in thousands):

	Airport System	Convention & Entertainment Facilities	Water & Sewer	Other Funds	Total
General Services	\$ 3,348	\$ 333	\$ 6,877	\$ 4,422	\$ 14,980
Fire Services	8,899	-	-	-	8,899
Police Services	14,413	-	-	-	14,413
Engineering Services	-	630	9,258	10,736	20,624
Fleet Maintenance	158	31	672	2,783	3,644
Legal	1,458	618	4,528	353	6,957
Other	253	(107)	3,058	15,479	18,683
Total	\$ 28,529	\$ 1,505	\$ 24,393	\$ 33,773	\$ 88,200

D. Schedule of Amounts Due To and Due From Other Funds

The composition of interfund balances as of June 30, 2002 is as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General Fund	Water & Sewer	10,125
	Grants Revenue	2,163
	Nonmajor Governmental Funds	2,556
	Capital Projects Fund	10,045
	Airport System	834
	Convention and Entertainment Facilities	1,127
	Health Benefits Fund	2,069
		<u>\$ 28,919</u>
Grants Revenue	General Fund	70
		<u>\$ 70</u>
Debt Service Fund	Nonmajor Governmental Funds	659
		<u>\$ 659</u>
Capital Projects Fund	General Fund	563
	Health Benefits Fund	2
		<u>\$ 565</u>
Airport System	General Fund	107
	Health Benefits Fund	101
		<u>\$ 208</u>
Convention and Entertainment Facilities	General Fund	26
	Health Benefits Fund	8
		<u>\$ 34</u>
Water and Sewer	General Fund	869
	Health Benefits Fund	238
	Grants	224
		<u>\$ 1,331</u>
Health Benefits Fund	General Fund	1
		<u>\$ 1</u>
Nonmajor Governmental Funds	Water and Sewer	2,071
	Convention and Entertainment Facilities	2,173
	General Fund	682
	Health Benefits Fund	78
	<u>\$ 5,004</u>	

CITY OF HOUSTON, TEXAS
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2002

Note 13: Commitments and Contingencies

A. Litigation and Claims

The City is a defendant in various lawsuits and is aware of pending claims arising in the ordinary course of its municipal and enterprise activities, certain of which seek substantial damages. That litigation includes lawsuits and claims alleging that the City caused personal injuries and wrongful deaths; class actions and other lawsuits and claims alleging discriminatory hiring and promotional practices and certain civil rights violations arising under the Federal Voting Rights Act; various claims from contractors for additional amounts under construction contracts; and claims involving property tax assessments and various other liability claims. Alleged damages in the lawsuits exceed \$178 million. The status of such litigation ranges from an early discovery stage to various levels of appeal of judgments both for and against the City. The amount of damages is limited in certain cases under the Texas Tort Claims Act and is subject to appeal. The City intends to defend itself vigorously against the suits. There is other threatened litigation for which an amount cannot be determined.

In the Statement of Net Assets, the City has recognized a liability of \$34.7 million for potential litigation losses and defense costs arising from various lawsuits.

B. Environmental Liabilities

The City is aware of various sites contaminated by asbestos or other hazardous materials. The City of Houston (inclusive of Airport System Fund, the Water and Sewer System Fund) has an accrued liability of \$10.7 million, to be used for asbestos and petroleum storage tanks removal, and remediation.

State regulations require a demonstration of Financial Assurance for three recently opened Transfer Stations. The current estimate is \$343,431. This obligation will materialize only if the city fails to clean and secure these facilities if operations terminate.

C. Commitments for Capital Facilities

At June 30, 2002, the City had appropriated but not yet spent from Capital Projects and Enterprise Funds approximately \$1,047,031,664 for capital projects.

The City leased a tract of land for 30 years with a 30 year renewal option for \$100 per year to The Houston Music Hall Foundation. The Houston Music Hall Foundation is constructing on the site the New Music Hall to be named the Hobby Center for the Performing Arts. Substantial completion did occur by October 31, 2002, as required by the agreement, and final completion must occur within five years thereafter.

Upon final completion the New Music Hall will be granted and conveyed to the City. The City is obligated to pay from parking revenues \$1 million per year for 30 years beginning on the commencement of the lease. The City's annual obligation is secured by a pledge of the parking revenues from the Civic Center and Tranquility Park Parking Garages equal to \$1,200,000 per year for 30 years.

Effective September 5, 2000 ordinance 2000-776, the City of Houston entered a capital lease (bargain purchase price of \$1) with COHCC, LLC. Under the 25 year lease, COHCC, LLC will construct and the City will occupy the Houston Emergency Center. The annual lease expense of \$4,347,000 will be shared by the City of Houston's departments (Police and Fire) and Harris County Emergency Services. Payments are scheduled to begin in fiscal year 2003.

D. Risk Management

The City is self-insured for claims pertaining to third party liability, unemployment and workers' compensation. The City carries public employee liability insurance to comply with City ordinance and purchases commercial property insurance with a per occurrence loss limit of \$300 million. Such insurance provides a \$2.5 million per occurrence deductible except for: 2% of the damaged insured value for windstorm or hail from a named storm, subject to \$2.5 million minimum and a \$10 million maximum; \$5 million deductible for flood. Although no losses were sustained in excess of the \$300 million per occurrence loss limit in the last 4 years, Tropical Storm Allison caused damages in excess of the \$5 million sub-limit to locations in the 100-year flood plain (Flood Zone A). Emergency Management is coordinating a claim to FEMA for the amount not covered by insurance. Self-insured claims are reported as liabilities in the accompanying financial statements when it is probable that a loss has occurred and the amount of that loss can be reasonably estimated. This determination is based on reported pending claims, estimates of claims, incurred but not yet reported, actuarial reports and historical analysis.

All claims are accounted for in the Government-wide Statement of Net Assets. Claims that are expected to be paid with expendable, available financial resources are accounted for in the General Fund and the appropriate Enterprise Funds.

CITY OF HOUSTON, TEXAS
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2002

Through its Health Benefit Plan, the City has consistently purchased commercial insurance up to certain limitations in the event of adverse loss experience.

For unemployment claims, the City pays claims as they are settled. Unemployment claim activity is as follows:

	Unemployment Claim Activity	
	June 30, 2002	June 30, 2001
Claims for fiscal year	608	522
Payments on claims	\$ 528,960	\$ 486,552

E. Federal and State

Amounts received or receivable from grantor agencies are subject to audit and adjustment by grantor agencies, principally the federal and state governments. Any disallowed claims, including amounts already collected, could be a liability of the City.

Note 14: Restricted Net Assets and Reserved Fund Balance

At June 30, 2002 net assets were restricted for the following purposes (in thousands):

A. Restricted Net Assets - Enterprise Fund Types

	Airport System	Convention & Entertainment Facilities	Water and Sewer System	Total Enterprise Funds
Debt service	\$ 32,281	\$ 20,457	\$ 35,617	\$ 88,355
Revenue bond contingency - renewal and replacement	13,819	550	363,436	377,805
Maintenance and operations	28,035	9,118	23,983	61,136
Capital improvements	202,808	288,211	83,333	574,352
Other restricted	1,952	193	-	2,145
Total	\$ 278,895	\$ 318,529	\$ 506,369	\$ 1,103,793

B. Reserved Fund Balances – Governmental Fund Types

Purpose	General Fund	Debt Service	Capital Projects	Grants Fund	Nonmajor Funds	Total
Equipment acquisition and capital outlay	\$ 4,675	\$ -	\$ -	\$ -	\$ -	\$ 4,675
Debt service	-	105,253	-	-	-	105,253
Revolving funds and other	-	-	-	-	8,360	8,360
Imprest cash & prepaid	1,737	-	43	-	-	1,780
Inventory	12,967	-	-	2,399	-	15,366
Total	\$ 19,379	\$ 105,253	\$ 43	\$ 2,399	\$ 8,360	\$ 135,434

Note 15: Related Organization Transactions

A. Metropolitan Transit Authority (“Metro”)

The City and Metro have an interlocal agreement under which Metro funded \$10.0 million of revenue for street maintenance and traffic control during the fiscal year ended June 30, 2002. The money is accounted for in the general fund.

CITY OF HOUSTON, TEXAS
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2002

B. Trinity River Authority (“TRA”)

As described in Note 6C, the City and TRA have a long-term contract under which the City is obligated to pay debt service for certain bonds as well as certain maintenance and operating expenses for a TRA dam and reservoir. During the fiscal year ended June 30, 2002 the City paid \$2.5 million for debt service and \$1.8 million for maintenance and operating expenses under the terms of the contract.

C. Coastal Water Authority (“CWA”)

The City has a long-term contract with Coastal Water Authority (CWA) for the acquisition of water. During the fiscal year ended June 30, 2002, the City paid CWA \$30.5 million for debt service and \$10.2 million for maintenance and operating expenses.

Note 16: Conduit Debt Obligations

To provide for higher education, airports, and sports facilities, the City has issued ten series of Special Facility Revenue Bonds. These bonds are special limited obligations of the City, payable solely from and secured by a pledge of revenue to be received from agreements between the City and various third parties. The bonds do not constitute a debt or pledge of the faith and credit of the City and accordingly have not been reported in the accompanying financial statements.

At June 30, 2002 Special Facility Revenue Bonds outstanding aggregated \$686,330,000.

Note 17. Major Discretely Presented Component Units

A. The following discretely presented component units represent major component units. For reporting purposes, the City considers a component unit to be major if it’s assets, liabilities, revenue or expenses exceed 10% of that component unit’s class and exceed 5% of all component units combined.

Net Assets
Major Component Units - Discretely Presented Governmental
June 30, 2002
(in thousands)

	Cultural Arts Council of Houston	Midtown Redevelopment Authority	Greater Greenspoint Redevelopment Authority	Uptown Redevelopment Authority	Southwest Houston Redevelopment Authority	Nonmajor Component Units	2002
Cash, receivable and other current assets	\$ 945	\$ 14,581	\$ 5,241	\$ 9,429	\$ 652	\$ 45,936	\$ 76,784
Due from primary government	2,172	-	-	-	-	-	2,172
Noncurrent assets	-	1,092	-	506	-	3,762	5,360
Capital assets, net of accumulated depreciation	91	6,344	-	-	-	10,053	16,488
Total assets	3,208	22,017	5,241	9,935	652	59,751	100,804
Current liabilities	2,502	3,198	58	1,751	9,468	6,333	23,310
Due to primary government	-	-	-	-	-	4,887	4,887
Long-term liabilities	-	24,845	8,000	24,595	-	48,743	106,183
Total liabilities	2,502	28,043	8,058	26,346	9,468	59,963	134,380
Net assets							
Invested in capital assets, net of related debt	-	-	-	-	-	3,887	3,887
Restricted	-	4,519	-	5,281	-	23,608	33,408
Unrestricted (deficit)	706	(10,545)	(2,817)	(21,692)	(8,816)	(27,707)	(70,871)
Total net assets (deficit)	\$ 706	\$ (6,026)	\$ (2,817)	\$ (16,411)	\$ (8,816)	\$ (212)	\$ (33,576)

CITY OF HOUSTON, TEXAS
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2002

THIS PAGE IS LEFT BLANK INTENTIONALLY

CITY OF HOUSTON, TEXAS
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2002

Change in Net Assets
Major Component Units - Discretely Presented Governmental
For the Year Ended June 30, 2002
(in thousands)

Component Units	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Cultural Arts Council of Houston/Harris County
Cultural Arts Council of Houston/Harris County	\$ 9,376	\$ -	\$ 9,320	\$ -	\$ (56)
Midtown Redevelopment Authority	6,889	-	1,110	-	-
Greater Greenspoint Redevelopment Authority	8,576	-	-	-	-
Uptown Development Authority	13,568	-	-	-	-
Southwest Houston Redevelopment Authority	10,345	-	-	-	-
Nonmajor Component Units	26,249	-	2,635	-	-
Total component units	\$ 75,003	\$ -	\$ 13,065	\$ -	(56)

General Revenues:

Taxes	
Property Taxes levied for general purposes	-
Unrestricted investment earnings (loss)	19
Other	8
Total general revenues, special items, and transfers	27
Change in net assets	(29)
Net Assets (deficit) beginning	735
Net Assets (deficit) ending	\$ 706

CITY OF HOUSTON, TEXAS
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2002

Net (Expense) Revenue and Change In Net Assets

Midtown Redevelopment Authority	Greater Greenspoint Redevelopment Authority	Uptown Redevelopment Authority	Southwest Houston Redevelopment Authority	Nonmajor Component Units	Total Component Units
\$ -	\$ -	\$ -	\$ -	\$ -	\$ (56)
(5,779)	-	-	-	-	(5,779)
-	(8,576)	-	-	-	(8,576)
-	-	(13,568)	-	-	(13,568)
-	-	-	(10,345)	-	(10,345)
-	-	-	-	(23,614)	(23,614)
<u>(5,779)</u>	<u>(8,576)</u>	<u>(13,568)</u>	<u>(10,345)</u>	<u>(23,614)</u>	<u>(61,938)</u>
4,223	3,216	2,678	1,189	5,752	17,058
268	31	174	7	(1,069)	(570)
<u>146</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,463</u>	<u>2,617</u>
<u>4,637</u>	<u>3,247</u>	<u>2,852</u>	<u>1,196</u>	<u>7,146</u>	<u>19,105</u>
(1,142)	(5,329)	(10,716)	(9,149)	(16,468)	(42,833)
(4,884)	2,512	(5,695)	333	16,256	9,257
<u>\$ (6,026)</u>	<u>\$ (2,817)</u>	<u>\$ (16,411)</u>	<u>\$ (8,816)</u>	<u>\$ (212)</u>	<u>\$ (33,576)</u>

CITY OF HOUSTON, TEXAS
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2002

Net Assets
Major Component Units - Discretely Presented Business-type
June 30, 2002
(in thousands)

	Houston Convention Center Hotel Corp.	Houston Housing Finance Corp.	2002
Cash, receivable and investments	\$ 2,278	\$ 9,236	\$ 11,514
Due from primary government	266,694	-	266,694
Noncurrent assets	1,894	14,995	16,889
Capital assets, net of accumulated depreciation	69,413	-	69,413
Total assets	<u>340,279</u>	<u>24,231</u>	<u>364,510</u>
Current liabilities	26,034	1,111	27,145
Due to primary government	315,773	-	315,773
Long-term liabilities	-	4,139	4,139
Total liabilities	<u>341,807</u>	<u>5,250</u>	<u>347,057</u>
Net assets			
Restricted	-	2,974	2,974
Unrestricted (deficit)	(1,528)	16,007	14,479
Total net assets (deficit)	<u>\$ (1,528)</u>	<u>\$ 18,981</u>	<u>\$ 17,453</u>

CITY OF HOUSTON, TEXAS
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2002

THIS PAGE IS LEFT BLANK INTENTIONALLY

CITY OF HOUSTON, TEXAS
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2002

Change in Net Assets
Major Component Units - Discretely Presented Business-type
For the Year Ended June 30, 2002
(in thousands)

Component Units	Expenses	Charges for Services	Operating Grants and Contributions
Houston Convention Center Hotel Corp.	\$ 1,667	\$ -	\$ -
Houston Housing Finance Corp.	8,065	1,453	-
Totals	<u>\$ 9,732</u>	<u>\$ 1,453</u>	<u>\$ -</u>

General Revenues:

Taxes

Property Taxes levied for general purposes

Unrestricted investment earnings

Other

Total general revenues, special items, and transfers

Change in net assets

Net Assets (deficit) beginning

Net Assets (deficit) ending

CITY OF HOUSTON, TEXAS
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2002

Net (Expense) Revenue and Change in Net Assets			
Capital Grants and Contributions	Houston Convention Center Hotel Corp.	Houston Housing Finance Corp.	Totals 2002
\$ -	\$ (1,667)	\$ -	\$ (1,667)
-	-	(6,612)	(6,612)
\$ -	(1,667)	(6,612)	(8,279)
	-	750	750
	810	951	1,761
	-	6,291	6,291
	810	7,992	8,802
	(857)	1,380	523
	(671)	17,601	16,930
	\$ (1,528)	\$ 18,981	\$ 17,453

CITY OF HOUSTON, TEXAS
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2002

Note 18: Subsequent Events

A. Tax and Revenue Anticipation Notes

In July 2002, the City closed the sale of \$175 million of Tax and Revenue Anticipation Notes (TRANS). The proceeds of the TRANS will be used to pay working capital expenditures until tax revenues are received in February 2003. The notes will mature on June 30, 2003.

B. Airport System Subordinate Lien Revenue Bonds Series 2002A,B,C,D1 and D2

On August 15, 2002, the City closed the sale of \$200,050,000 Series 2002A (AMT), \$274,000,000 Series 2002B (Non-AMT), \$100,000,000 Series 2002C (AMT), \$75,000,000 Series 2002D-1 (AMT) and \$75,000,000 Series 2002D-2 (AMT) Airport system Subordinate Lien Revenue Bonds. Interest rates for the bonds range from 4.86% to 5.50% and are due in varying amounts from year 2008 to year 2032. These proceeds were used to refund all of the outstanding Airport Commercial Paper and finance certain improvements of the City's Airport System.

C. Water and Sewer Junior Lien Bonds Series 2002B

On September 5, 2002, the City closed on the sale of \$309,110,000 Water and Sewer System Junior Lien Revenue Forward Refunding Bonds, Series 2002B. Interest rates for the bonds range from 5.00% - 5.75% and are due in varying amounts from year 2003 to year 2018. The proceeds were used to refund \$216,910,000 Series 1992B Water and Sewer Prior Lien Bonds, \$11,360,000 Series 1992A and \$88,885,000 Series 1992C Water and Sewer Junior Lien Bonds.

D. Tax and Revenue Certificates of Obligations Series 2002A

On September 24, 2002, the City closed on the sale of \$12,400,000 Tax and Revenue Certificates of Obligation Bonds, Series 2002A. Interest rates for the bonds range from 3.50% - 5.00% and are due in varying amounts from year 2005 – 2022. The proceeds were used to provide all or part of the funds to pay for the construction of any public work, for construction designated as Cotswold, and for payment of related professional services.

E. Public Improvement Refunding Bonds Series 2002

On December 17, 2002, the City closed on the sale of \$247,285,000 Public Improvement Refunding Bonds, Series 2002. Interest rates for the bonds ranged from 2.75% - 5.25% and are due in vary amounts from year 2004 to 2022.

CITY OF HOUSTON, TEXAS
REQUIRED PENSION SYSTEM SUPPLEMENTARY INFORMATION
June 30, 2002

Houston Firefighters' Pension System Supplementary Information (unaudited)

Schedule of Funding Progress (millions)

Actuarial Valuation Date	Actuarial Value of Plan Assets (a)	Actuarial Accrued Liability (AAL) Entry Age (b)	Unfunded AAL (Surplus UAAL) (b-a)	Funded Ratio (a/b)	Projected Annual Covered Payroll (c)	UAAL as Percentage of Covered Payroll ((b-a)/c)
July 1, 1996	\$1,024.5	\$ 989.3	(\$35.2)	104%	\$131.6	(27%)
July 1, 1997	\$1,183.8	\$1,128.2	(\$55.6)	105%	\$142.0	(39%)
July 1, 1998	\$1,347.4	\$1,271.4	(\$76.0)	106%	\$149.0	(51%)
July 1, 1999	\$1,538.5	\$1,470.6	(\$67.9)	105%	\$159.0	(43%)
July 1, 2000	\$1,726.3	\$1,589.3	(\$137.0)	109%	\$163.6	(84%)
July 1, 2001	\$1,863.1	\$1,650.8	(\$212.3)	113%	\$164.3	(129%)

Schedule of Employer Contributions (millions)

Year Ended June 30	Annual Required Contribution	Percentage Contributed	Annual Required Contribution as a % of Base Pay
1997	\$20.3	100%	15.4%
1998	\$21.7	100%	15.4%
1999	\$24.0	100%	15.4%
2000	\$24.6	100%	15.4%
2001	\$24.0	100%	15.4%
2002	\$28.4	100%	15.4%

The information presented in the required supplementary schedules was determined as part of the actuarial valuations at the dates indicated. Additional information as to the latest actuarial valuation follows:

Valuation date	July 1, 2001
Actuarial cost method	Entry age normal cost
Amortization Method	Level percent of payroll, ending December 31, 2022, cost closed
Remaining amortization period	21 years
Asset valuation method	5 year smoothed market
Actuarial assumptions:	
Investment rate of return	8.5%, net of expenses
Payroll growth rate, attributable entirely to inflation	4.0%
Annual increase attributable to seniority/merit	0% to 6%
Post retirement benefit increase	3% annually

CITY OF HOUSTON, TEXAS
REQUIRED PENSION SYSTEM SUPPLEMENTARY INFORMATION
June 30, 2002

Houston Municipal Pension System Supplementary Information (unaudited)

Schedule of Funding Progress (millions)

Actuarial Valuation Date	Actuarial Value of Plan Assets (a)	Actuarial Accrued Liability (AAL) Entry Age (b)	Unfunded AAL (Surplus UAAL) (b-a)	Funded Ratio (a/b)	Projected Annual Covered Payroll (c)	UAAL as Percentage of Covered Payroll ((b-a)/c)
July 1, 1993	\$660.6	\$840.3	\$179.7	79%	\$340.2	53%
July 1, 1994	\$713.7	\$886.7	\$173.0	80%	\$366.6	47%
July 1, 1995	\$770.2	\$963.7	\$193.5	80%	\$378.5	51%
July 1, 1996	\$857.3	\$1,042.5	\$185.2	82%	\$367.6	50%
July 1, 1998	\$1,095.6	\$1,240.1	\$144.5	88%	\$397.7	36%
July 1, 1999	\$1,222.2	\$1,339.9	\$117.7	91%	\$407.7	29%
July 1, 2000	\$1,376.0	\$1,509.4	\$133.4	91%	\$432.6	31%

Schedule of Employer Contributions (millions)

Year Ended June 30	Annual Required Contribution	Percentage Contributed	Annual Required Contribution as a % of Base Pay
1996	\$33.5	97.0%	9.1%
1997	\$33.5	100.0%	9.1%
1998	\$33.5	100.0%	9.3%
1999	\$36.0	100.0%	9.1%
2000	\$38.3	100.0%	9.3%
2001	\$41.3	100.0%	9.5%
2002	\$41.3	98.8%	10%

The information presented in the required supplementary schedules was determined as part of the actuarial valuations at the dates indicated. Additional information as to the latest actuarial valuation follows:

Valuation date	July 1, 2000
Actuarial cost method	Entry age
Amortization method	Level percentage, closed.
Remaining amortization period	23 years
Asset valuation method	5 year smoothed market
Actuarial assumptions:	
investment rate of return	8.5%, net of expenses
Payroll growth factor	5.0%
Projected salary increases	5.5%, constant annual rate
General inflation rate	4.5%

CITY OF HOUSTON, TEXAS
REQUIRED PENSION SYSTEM SUPPLEMENTARY INFORMATION
June 30, 2002

Houston Police Officer's Pension System Supplementary Information (unaudited)

Schedule of Funding Progress (millions)

Actuarial Valuation Date	Actuarial Value of Plan Assets (a)	Actuarial Accrued Liability (AAL) Entry Age (b)	Unfunded AAL (Surplus UAAL) (b-a)	Funded Ratio (a/b)	Projected Annual Covered Payroll (c)	UAAL as Percentage of Covered Payroll ((b-a)/c)
July 1, 1995	\$1,038.3	\$1,000.4	(\$37.8)	104%	\$174.8	(22%)
July 1, 1996	\$1,168.1	\$1,199.7	\$31.7	97%	\$182.3	17%
July 1, 1997	\$1,329.6	\$1,258.2	(\$71.4)	106%	\$187.1	(38%)
July 1, 1998	\$1,518.1	\$1,549.3	\$31.3	98%	\$196.4	16%
July 1, 1999	\$1,746.3	\$1,773.8	\$27.5	98%	\$246.6	11%
July 1, 2000	\$2,013.5	\$1,966.4	(\$47.1)	102%	\$250.7	(19%)
July 1, 2001	\$2,226.3	\$2,306.4	\$80.1	97%	\$264.2	30%

Schedule of Employer Contributions (millions)

Year Ended June 30	Annual Required Contribution	Percentage Contributed	Annual Required Contribution as a % of Base Pay
1997	\$29,503	100.0%	16.2%
1998	\$30,564	100.0%	16.2%
1999	\$30,645	100.0%	16.8%
2000	\$30,645	100.0%	16.3%
2001	\$30,645	100.0%	16.3%
2002	\$32,645	100.0%	16.3%

The information presented in the required supplementary schedules was determined as part of the actuarial valuations at the dates indicated. The actuarial valuation performed as of July 1, 1998 was adopted by the Board of Trustees for funding purposes effective July 1, 1999. Additional information as to the latest actuarial valuation follows:

Valuation date	July 1, 2001
Actuarial cost method	Entry age
Amortization Method	Level percent of payroll Amortized over 30 years
Remaining amortization period	30 years
Asset valuation method	5 year smoothed market
Actuarial assumptions:	
Investment rate of return	8.5%
Payroll growth rate, attributable entirely to inflation	4.0 %
Annual cost of living adjustment	3.0% minimum, 8.0% maximum
Projected salary increases	4.0-9.0%

CITY OF HOUSTON, TEXAS

